

JPRS-CAR-93-057  
9 August 1993



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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-93-057

## CONTENTS

9 August 1993

### INTERNATIONAL

#### UNITED STATES

U.S. Changing Trade Policy Toward Asia .....	1
Analysis of 'Fair Trade' [Hong Kong CHING-CHI TAO-PAO 31 May] .....	1
Impact of Clinton's Trade Policy [Hong Kong CHING-CHI TAO-PAO 24 May] .....	3

#### NORTHEAST ASIA

Analysis of DPRK Situation [GUOJI ZHANWANG 8 Apr] .....	6
---	---

### POLITICAL

Article Calls for Study of Deng Xiaoping 'Theory' [JIEFANG RIBAO 24 Jun] .....	9
--	---

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

JINGJI CANKAO Analyzes Current Economic Growth [30 May] .....	16
Readjust Industrial Structure To Promote Growth [JINGJI RIBAO 8 Jun] .....	21

#### PROVINCIAL

Liaoning Statistical Bureau Chief on Revitalizing Economy [LIAONING RIBAO 16 Jun] .....	24
---	----

#### FINANCE, BANKING

Securities Commission Chairman on Stock Market Risk, Management [ZHONGGUO JINGJI TIZHI GAIGE 23 Apr] .....	27
Enterprises Use Stocks as Means of Financing [CAIMAO JINGJI 11 Apr] .....	35

#### SMALL-SCALE ENTERPRISES

Henan Vice Governor Advocates Upgrading Enterprises [HENAN RIBAO 3 Jun] .....	40
Heilongjiang Deputy Secretary Urges Enterprise Growth [HEILONGJIANG RIBAO 2 May] .....	41

#### FOREIGN TRADE, INVESTMENT

Indirect Trade With Taiwan Uneven [GUOJI MAOYI 15 May] .....	43
Trade With Gulf Countries Not Up to Potential [GUOJI SHANGBAO 24 Jun] .....	47
Strategies for Hinterland Cities To Develop Foreign Trade [GUOJI MAOYI WENTI 30 Apr] .....	48

#### POPULATION

National Family Planning Legislation Urged [ZHENGFA LUNTAN Apr] .....	52
---	----

## AGRICULTURE

Governor on Agriculture's Market Orientation [JINGJI RIBAO 2 May] .....	54
Heilongjiang Issues Circular To Ease Burdens [NONGMIN RIBAO 16 Apr] .....	56
Analysis of Recent Lumber Market [ZHONGGUO LINYE 17 May] .....	56
Roundup on Rural Analysis Symposium [ZHONGGUO NONGCUN JINGJI 20 Apr] .....	58

## REGIONAL

### NORTHWEST REGION

Regional CPC Urges Unity Among Xinjiang Nationalities .....	61
Propaganda Dept Issues Circular [XINJIANG RIBAO 26 Apr] .....	61

## UNITED STATES

### U.S. Changing Trade Policy Toward Asia

#### Analysis of 'Fair Trade'

93CM0378A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 2321,  
31 May 93 pp 30-32

[Article by Zhang Jialin: "How Will the United States Implement Its Tough Trade Policy Toward the Asia-Pacific Region?"]

[Text] Recently, the Office of the U.S. Trade Representative issued a series of reports and documents, accusing some of the trading partners of the United States of erecting trade barriers and of engaging in unfair trade. Toward the end of April, the office also published the lists of countries under section 301 investigation and observation, revised the rules implementing that section, and claimed that there would be sanctions against the relevant countries. Except Hong Kong, almost all the countries and areas of the Asia-Pacific region are on the list. This shows that the Clinton administration's trade policy tends to be tougher than its predecessor's. This development should arouse close attention on the part of the Asia-Pacific region.

#### An aggressive trade policy.

The important adjustment of U.S. trade policy made by President Clinton after coming to power was to change "free trade" into "fair trade." This can be seen from his speech delivered at the American University on 26 February this year. Although he expressed support for the establishment of a liberal, open, international trading system, for opening up markets, and for expanding trade, he also demanded that other countries open up their markets to American goods and services. Otherwise, according to him, the U.S. Administration would take "corresponding" actions. That is, Clinton puts more emphasis on the principles of "equality," "reciprocity," and "fairness" in relation to trade. According to the public opinion of the United States, the so-called "fair trade" is just an euphemism for protectionism. According to a NEW YORK TIMES commentary, Clinton believes that an aggressive trade policy does not conflict with free trade. The goal of his policy is to make other countries open the doors of their markets.

How to make other countries open the doors of their markets? It seems that Clinton is not relying on multilateral trade negotiations, but is enforcing U.S. trade laws in a coercive way, going so far as to adopt unilateral actions to impose sanctions on—and to retaliate against—the trading partners engaging in "unfair trading practices." The U.S. Commerce Department and the Office of the Trade Representative have issued many statements, indicating that they "will enforce existing trade agreements and trade laws in a more strict, forceful manner." The United States has signed many trade agreements with foreign countries, and Congress passed the Trade Act of

1974, Trade Act of 1984, and Omnibus Trade and Competitiveness Act of 1988. But the Reagan and Bush administrations were "kind-hearted and soft," and were not effective in enforcement. Therefore, it is now necessary to strictly enforce the laws and agreements; especially, it is necessary to enforce section 301 relating to the protection of intellectual property rights and to encouraging foreign countries to open up their markets.

In enforcing the above-mentioned laws, the United States places its focus on the Asia-Pacific region. For, according to estimates made by the United States, the Western industrial countries will only achieve weak economic growth this year, and there will be almost no growth in U.S. exports to the EC. The Canadian economy may grow slightly, but the growth rate will not exceed 2 percent. It will be the Asia-Pacific region, especially East Asia, that will be the fastest growing region in the world. The economic growth rates of the "Four Little Dragons" of Asia this year are expected to be higher than last year. And, such growth does not come from exports to the West, but depends more on Western investment, domestic consumption, and intraregional trade. The second-tier countries such as Malaysia, Indonesia, and China will grow even faster. Consequently, the United States deems it necessary to reexamine its trade policy toward this region, so as to further open up the markets in the region. According to the United States, Japan, as the country with the largest trade surplus, is the country which has gone the farthest in erecting trade barriers. As for China, which has the second largest trade surplus with the United States, although a market access agreement with the United States was signed toward the end of last year, "some serious problems are yet to be solved—especially such problems as those of U.S. service access to the Chinese market, tariff, and import license and quota."

#### Revising the rules implementing the Super 301 provision.

The Trade Act of 1974, Trade Act of 1984, and Trade Act of 1988 all contain section 301—Super 301, stipulating that there should be investigation on and retaliation against countries infringing U.S. intellectual property rights and discriminating against certain U.S. goods. Under this section, the U.S. Trade Representative will publish a "short list of countries" in spring each year. The so-called "short-listed countries" would be "those countries which have adopted the most obstructive, extreme actions, policies, and practices, resulting in the relevant U.S. goods suffering large losses, while failing to conduct—with sincerity—bilateral or multilateral negotiations on providing effective protection of intellectual property rights, and to achieve progress." The Office of the Trade Representative should launch an investigation—lasting no more than six months—on the "short-listed countries" within 30 days, so as to determine whether to take retaliatory measures, including imposing 100 percent duties on the goods from the countries concerned. In addition, according to this section, those countries against which no immediate actions are necessary can be put under "observation," and thus a "short list of countries under observation" and a "general list of countries under observation"



are formulated. Those on the former list must correct the problems before the set deadlines, and those on the latter list must take measures sooner or later to eliminate the practices undermining U.S. intellectual property rights and obstructing U.S. access to markets; only after accomplishing those things, would their names be removed from the lists.

In the first two years of the Bush administration, no "short list of countries" was published, and only lists of countries under observation were published. With regard to the issue of infringement of intellectual property rights, the Bush administration tried to resolve the issue through bilateral and multilateral (e.g., GATT) negotiations, thereby avoiding imposing harsh sanctions and exacerbating the conflicts with the trading partners. In 1991, the Bush administration began to publish the "short list" of countries under Super 301 observation and launched investigations on the countries on the list (in that year China, India, and Thailand were put on the list); meanwhile, it also published a "short list of countries," but still resorted to negotiations (sometimes lasting many years) in its effort to resolve the differences.

After Clinton came to power, U.S. Trade Representative Kantor criticized the previous administration many times for not strictly enforcing section 301 and for observing and investigating some countries too long without taking any action, resulting in a failure to put an end to the infringement of intellectual property rights. Thus, the Clinton administration has revised the rules implementing the section, dividing those on the "short list of countries under observation" into two categories: In one category are countries on which there should be "immediate plans of action"; in such cases, observation has to be completed within three months, and then whether to impose sanctions will be decided. In the other category are countries under "examination of indefinite duration," which will result in the setting of deadlines and in the imposition of targets to be reached, so that future evaluations can be carried out. According to Kantor, in the past, in spring each year when the United States was preparing to publish the list of countries under Super 301 observation, some foreign countries would adopt temporary measures to improve to some extent the protection of intellectual property rights, in order to prevent U.S. investigation. Now, the United States would not let such phenomenon happen again. The purpose of adopting the new rules is to be able to make "forceful, swift response" to those countries which do not comply with agreements and U.S. laws.

#### **The Asia-Pacific region will bear the brunt.**

In trying to be forceful in enforcing the Super 301 provision, the United States is first of all targeting the Asia-Pacific region, especially East Asian countries and areas. Of the three countries on the "short list" published by the Office of the U.S. Trade Representative on April 30 this year, two were Asia countries, that is, India and Thailand (the third country was Brazil). Since 1991, India and Thailand have been "short-listed" for three consecutive years. This is so mainly because the United States believes

that the two countries have not provided effective protection for U.S. patents, copyrights, and trademarks. Thus, In 1992 the United States terminated the Generalized System of Preferences [GSP] treatment to US\$880 million worth of India's exports. Thailand already lost the GSP treatment in 1989. The United States criticized India's parliament for having so far failed to pass the copyright law, and contended that the existing patent law and trademark law were flawed in many ways and had to be revised. Thailand was asked to revise or formulate laws on protecting intellectual property rights in a comprehensive way.

Among those on this year's "short list of countries under observation," Taiwan was made a target of "immediate plans of action," because it had failed to satisfy the United States in regard to protecting intellectual property rights and market access. The United States demanded that Taiwan establish a regular cable television system through adopting legislation, prevent the pirating of U.S. television programs, prohibit the pirating of U.S. video tape recordings, and allow U.S. video and audio products to enter Taiwan. In addition, Taiwan's trademark law would also needs improvement. The United States demanded that Taiwan correct those infringement problems before July 31 this year; otherwise, appropriate actions would be taken. Of those on the "short list of countries under observation," the ROK was made a target of "examination of indefinite duration," because it had not been effective in enforcing its trademark law and copyright law, and because in the ROK there had been illegal copying of U.S. computer software, compact discs, audio and video tape recordings and counterfeiting of U.S. trademarks (shoes and cosmetics). The United States demanded that the ROK revise and perfect its copyright law and laws on protecting computer software and semiconductor patents.

Among the countries of the Asia-Pacific region on this year's "general list of countries under observation" are such countries as China, Japan, the Philippines, and Pakistan. In this regard, because of infringement of rights involving trademarks and copyrights, Pakistan—which is on the "general list of countries under observation"—is a target of "examination of indefinite duration." Those countries are on the "general list of countries under observation" because "their practices regarding the protection of intellectual property rights and the market access of U.S. audio and video products should arouse special attention on the part of the United States."

Although this year Japan is only put on the "general list of countries under observation," the Office of the U.S. Trade Representative has announced that Japan is a target of investigation under Chapter 7 of the Trade Act of 1988. That chapter provides for investigation on countries where the government procurement policy discriminates against U.S. firms. The United States has always believed that Japan is excluding U.S. firms in the area of construction and engineering. Before 1988, Japanese construction firms could take part in the public and private construction projects in the United States, but U.S. firms could not enter the Japanese construction market. Toward the end of 1990, Japan partially opened its construction market, but

the United States was still not satisfied. Thus, in 1991 the United States announced the launching of investigation on Japan. Despite several years of negotiations, the two sides had failed to reach agreement. This time, the United States decided to begin consultation which was in the last 30 days, in order to resolve the differences.

At the same time, in its report, the Office of the U.S. Trade Representative also expressed "concern" about the government procurement policies of China and Australia. According to the report, the Chinese Government procurement policy "is for the most part nontransparent, and the procurement process is not open to foreign businesses." But it also noted that China had indicated its intention to increase the transparency of the foreign trade system and to publish the relevant foreign trade laws and regulations. The United States demanded that China complete those reforms before the fall of 1993.

**It is necessary to pay great attention to the issue of intellectual property rights.**

The tough trade policy followed by the Clinton administration is in line with, and a product of, the Clinton administration's domestic economic policy. After coming to power, Clinton made reinvigorating the economy the first-priority task. Trade Representative Kantor has claimed that the era when the needs of foreign and defense policies were put above economic and trade interests is already gone. The U.S. economy has now entered the stage of upturn, but the growth is still slow, while there is no improvement in the unemployment situation. What Clinton is concerned about is first of all how to increase employment. He and his team of economic advisors intend to provide support for some high-tech industries so as to enhance competitiveness and increase exports, thereby reducing trade deficit. And, when the share of knowledge-intensive and technology-intensive products in exports is getting ever larger, the issue of intellectual property rights is becoming ever more important, and conflicts with foreign countries on this issue will also be on the rise. However, if the United States wants to increase exports and reduce its trade deficit, it will not be enough to just ask foreign countries to protect intellectual property rights. The key lies in reducing the budget deficit of the United States and in improving production efficiency and international competitiveness.

As far as the Asian-Pacific developing countries are concerned, the issue of protecting intellectual property rights should arouse their great attention. In general, the protection of intellectual property rights is closely related to the level of economic development. The economically developed countries give greater emphasis to protecting intellectual property rights, and their legal systems are also more fully developed. Almost all the countries which have been on the Super 301 short list and the list of countries under observation—lists published by the United States—have been developing countries. Especially, most have been Asian developing countries (this year some developed countries also became targets of observation, but mainly in relation to the issue of market access). Therefore, the situation regarding the protection of intellectual property

rights reflects a country's cultural level and degree of respect for the legal system; meanwhile, protecting intellectual property rights can also promote the relevant country's scientific and technological development and industrial upgrading.

The 1979 trade agreement between China and the United States already provides of protection of copyrights, patents, and trademarks of both parties. The United States believes that China's system of laws on protecting intellectual property rights is underdeveloped, and that the protection measures are inadequate. It put China on the "general list of countries under observation" in 1989, and then, in 1991, announced that China was on the "short list of countries under observation," resulting in tension in the relations between the two countries for a time. After bilateral negotiations and with China's efforts, in 1992 and 1993 China went back to the "general list of countries under observation." The two sides have greatly reduced their differences on the issue of intellectual property rights. But, in view of the U.S. Administration's intention to more forcefully enforce the Super 301 provision, China should not be complacent. China now has its copyright law, patent law, and trademark law, but still needs to frequently examine the enforcement situation, so as to prevent new disputes.

#### **Impact of Clinton's Trade Policy**

93CM0378B Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 2320,  
24 May 93 pp 32-34

[Article by Cao Yunhua: "Clinton's Foreign Trade Policy Is Not Good for Asia"]

[Excerpts] *The foreign trade policy that Clinton has been following since coming to power will have profound impact not only on the U.S. economy and trade, but also on the economic and trade development of the world. As has been revealed so far, the so-called "fair trade" foreign trade policy proposed by Clinton shows obvious protectionist tendencies, or is based on using protectionism to fight other countries' protectionism. The new administration has, first of all, targeted Europe, and is likely to target Asia in the days to come. This article will analyze the essence and background of Clinton's foreign trade policy and what impact this policy will have on the Asian countries. [passage omitted]*

#### **The essence and background of the policy.**

The core of Clinton's foreign trade policy can be summarized in one phrase which Clinton has often used since coming to power, that is, "fair trade." In his speech delivered on 26 February, Clinton amplified the "fair trade" policy, emphasizing such things as fairness, reciprocity, and equal opportunity. According to him, in order to have truly "fair trade," the United States must adhere to the following three principles: 1) Neither the United States nor its trading partners "should seek gains without costs," that is, that while foreign goods and services are welcome to enter the U.S. market, U.S. goods and services should also be allowed to enter the markets of the relevant countries under the same conditions. 2) Foreign countries



are welcome to invest in U.S. enterprises, but, at the same time, the United States also firmly demands that its investors be welcome to other countries in the same way. 3) Foreign firms are welcome to set up subsidiaries in the United States, but they are also required to pay the same income taxes as U.S. firms do.

The essence of the idea of the so-called "fair trade" is to have more government intervention in U.S. foreign trade, countering trade barriers with trade barriers and countering other countries' protectionism with protectionist measures. The series of actions that the Clinton administration has taken recently have testified to that point. The following are several examples:

On 27 January this year, only a week after Clinton came to the White House, the U.S. Commerce Department announced the imposition—beginning on that day—of punitive duties on imported steel products from 19 countries, including Japan and European countries, so as to limit the disruption of the U.S. steel market caused by the cheap steel products from those countries.

On 1 February this year, the Clinton administration formally requested that the EC revise a law on government procurement which went into effect in January this year; otherwise, starting from March this year, U.S. Government agencies—in regard to their public purchase contracts—would be prohibited from accepting bids from any EC firms.

On 27 February this year, the Clinton administration criticized the EC for using large amounts of government subsidies to support its aircraft industry in an effort to fight with the United States for market through "unfair competition." He said that the United States would take necessary measures to force the EC to give up its government subsidy policy.

Recently, the Clinton administration proposed the "Buy America Bill," and threatened the EC in almost ultimatum-like language; if the EC should fail to let more U.S. firms enter Europe, European enterprises would be expelled from the United States.

With regard to trade in agricultural products, the Clinton administration maintains a position which is much tougher than the Bush administration's position, and has repeatedly accused the EC of providing favorable conditions for exporting agricultural products and of providing exporters with government subsidies.

In recent months, the trade relations between the United States and Japan have also been very tense. According to some U.S. experts on Japan, as the practices of Japanese enterprises have effectively excluded foreigners from the Japanese market, it is not possible for the United States to have free trade with Japan. Thus, the Clinton administration is likely to exert really strong pressure on Japan.

Against what background did Clinton adopt his foreign trade policy?

First, Clinton believed that such policy was necessary in order to reinvigorate the U.S. economy. After coming to

power, Clinton vowed to reinvigorate the U.S. economy and to make sure that the United States would maintain the status of a superpower. The United States is a large trading power, and foreign trade plays an important role in the U.S. economy. For instance, in 1991, U.S. exports of goods and services totalled US\$580 billion, equalling approximately 12 percent of the gross domestic product of the United States as a whole for that year. On average, 20 percent of the profits of U.S. enterprises comes from exports. One in every six new manufacturing jobs is created by exports. Despite the fact that during the campaign Clinton had expressed the intention to be a President focusing on U.S. domestic affairs, he discovered after coming to power that how to tackle foreign trade was an urgent issue facing him, because of the importance of foreign trade to the U.S. economy.

Second, the policy was needed in order to implement his overall foreign policy. Foreign trade policy of a country is an important component of that country's overall foreign policy. Clinton's foreign policy is based on three pillars, that is, economic growth, military power, and support for democracy. Secretary of State Christopher elaborated on the three pillars in the following way: "A vibrant economic pillar will increase the United States' ability to engage in foreign affairs; at the same time, we shall ensure that there will be a strong military force." "Meanwhile, through helping other countries build democracy on the ruins of dictatorship, we can eliminate old threats and prevent new threats, so as to create new markets for U.S. trade and investment."

Third, the policy was needed in order to deal with growing trade protectionism. According to the Clinton administration, growing trade protectionism and unfair competition had made the U.S. economy and the American people suffer great losses, resulting in huge U.S. trade deficits, in large decrease in employment opportunities, in many Americans losing their jobs, and in the persistent sluggishness of the U.S. economy. Consequently, Clinton vowed to pursue a new trade policy in order to protect American citizens from being harmed by unfair trade. It is thus not surprising that Clinton attaches more importance to foreign trade, regarding it as bearing on the national security of the United States.

#### Impact on Asia

Asia is the most important trading partner of the United States. In 1991, U.S. bilateral trade with the Asian region totalled US\$319.4 billion (including Japan; the same below), accounting for 34.3 percent of the total value of trade of the United States. On the other hand, in the same year, U.S. bilateral trade with the 17 West European countries totalled US\$219.8 billion, accounting for 23.6 percent of the total value of trade of the United States. In other words, the value of U.S. trade with Asia was 45 percent larger than the value of U.S. trade with West Europe; and the former value was nearly US\$100 billion larger than the latter value. However, Asia is also the main source of the huge U.S. trade deficit. In recent years, U.S. trade deficit has decreased continuously, but still amounted to US\$87.5 billion in 1991 (as much as

US\$171.2 billion in 1987). In this respect, the United States has maintained trade surpluses with the 17 West European countries, Australia, and New Zealand, with an overall surplus totalling US\$15.2 billion. But, the United States has a trade deficit with the Asian countries amounting to as much as US\$87.8 billion. The United States has maintained trade deficits with almost all the major Asian countries and areas. Its trade deficit with Japan amounted to US\$46.9 billion, accounting for 53.4 percent of the U.S. trade deficit with Asia; its trade deficit

with China amounted to US\$14 billion, accounting for 16 percent of the U.S. trade deficit with Asia; and it had trade deficits with all such countries and areas as Taiwan, Hong Kong, the ASEAN countries, the ROK, and India (see the table below).

The table below shows that some large Asian countries, the ASEAN countries, and the newly industrializing economies are the main trading partners with which the United States have huge trade deficits. Those Asian countries will doubtless bear the brunt of Clinton's "fair trade" policy.

U.S. Trade With Major Asian Countries and Areas (in hundreds of millions of U.S. dollars; 1987-1991)

	1987			1988			1989			1990			1991		
	Import	Export	Balance	Import	Export	Balance	Import	Export	Balance	Import	Export	Balance	Import	Export	Balance
Japan	881	283	-598	931	376	-555	971	446	-525	931	486	-445	950	482	-468
China	69	35	-34	93	50	-43	129	58	-71	163	48	-115	203	63	-140
Hong Kong	105	40	-65	108	57	-51	102	63	-39	100	68	-32	97	81	-16
India	27	15	-12	32	25	-7	36	25	-11	34	25	-9	34	20	-14
Indonesia	37	8	-29	35	11	-24	39	13	-26	37	19	-18	36	19	-17
ROK	180	81	-99	212	113	-89	205	135	-70	193	144	-49	177	155	-22
Malaysia	31	19	-22	39	21	-18	49	29	-20	55	34	-21	64	39	-25
Philippines	25	16	-9	29	19	-10	33	22	-11	36	25	-11	37	23	-14
Singapore	64	41	-23	82	57	-25	92	74	-18	101	80	-21	102	88	-14
Thailand	24	15	-9	34	19	-15	46	23	-23	56	30	-26	65	38	-27
Taiwan	264	74	-190	262	120	-142	256	113	-143	239	115	-123	242	132	-110

Source: IMF, *Direction of Trade Statistics Yearbook 1992*

All signs indicate that while hitting Europe with the "fair trade" policy, the Clinton administration is also planning to hit Asia. According to U.S. newspaper reports, the U.S. Administration has already been using more stringent measures to handle the imports and exports passing Customs at Los Angeles, the main port used in U.S. trade with Asia. With regard to exports, in the past the focus of inspection was on illegally transferred arms, controlled chemical products, and high-tech products; recently the illegal transfer of cash has also been made a target of focused inspection. With regard to imports, the United States has begun considering Japan and China to be major targets of tariff-evasion inspections. The Los Angeles customs office will also conduct aggressive inspections so as to ferret out and seize products involving infringement of intellectual property rights and products which will adversely affect the health of the public, and will be more watchful in conducting random inspections.

This is not the first time that Asian countries have experienced the disruptive impact of U.S. protectionism; they have already tasted U.S. protectionism. For instance, as early as in 1988 the United States terminated the GSP treatment granted to the "Four Little Dragons" of Asia;

since the late 1980s, the U.S. Administration has been continually creating many obstacles to trade between China and the United States. In the 1992 Trade White Paper of Japan issued last year, Japan also expressed the view that since the 1970's the United States had been employing many protectionism measures to deal with some products made in Japan.

#### The response of the Asian countries.

In view of the U.S. trade protectionism which has been on the ascendance in recent years, many Asian countries have adopted policies such as those of market diversification and increasing intraregional trade, so as to reduce the dependence on the U.S. market. The "Four Little Dragons" of Asia have made significant progress in this respect. According to statistics, with regard to the "Four Little Dragons," in 1986 exports to the United States accounted for 41 percent of Taiwan's total exports; 33 percent of the ROK's total exports; 16 percent of Hong Kong's total exports; and 20 percent of Singapore's total exports. In 1991, the respective figures became smaller: 30 percent of Taiwan's total exports; 25 percent of the ROK's total exports; 9.5 percent of Hong Kong's total exports; and 17



percent of Singapore's total exports. Other major Asian countries are moving in the same direction as the "Four Little Dragons." For instance, the rate of dependence of India's exports on the U.S. market was 19.5 percent in 1986, but fell to 15.3 percent in 1991. Indonesia's rate fell from 19 percent to 12 percent; and Japan's rate fell from 38.9 percent to 29.3 percent.

However, there are also some Asian countries which have increased their exports' dependence on the U.S. market in recent years. For example, the rate of dependence of China's exports on the U.S. market was 8.4 percent in 1986, but increased to 8.6 percent in 1991; Thailand's rate increased from 18.1 percent to 21.8 percent; Malaysia's rate increased from 16.4 percent to 16.8 percent; and the Philippines' rate increased from 35.6 percent to 35.7 percent.

In view of those trends, we can come to the following conclusion: that the countries (or areas) in the latter category will be less likely to suffer from disruptive effects of Clinton's "fair trade" policy, because they are gradually reducing their dependence on the U.S. market, and that the countries in the latter category are more likely to suffer from the disruptive effects of Clinton's "fair trade" policy, because they are continuously increasing their dependence on the U.S. market.

The statements recently made by some officials of the Clinton administration and views recently expressed in U.S. newspapers and periodicals indicate that Japan and China will be the two major Asian countries against which the United States will take further protectionist actions. The trade relations between the United States and Japan are already very tense; and the trade relations between China and the United States are now also facing many hurdles. Both China and Japan are large Asian powers, and thus the deterioration of trade relations between the United States and those two countries will inevitably have harmful effects on other Asian countries (or areas). Take the example of China. Currently, the "Four Little Dragons" of Asia, Japan, and the ASEAN countries are all investing huge amounts of capital in the construction of factories in China. However, the products of those factories will not stay in the mainland market, but will be exported, in large quantities, to the United States and other countries. If the United States terminates China's most-favored-nation treatment or adopts other tough measures, there will not only be harmful effects on China itself, but also be serious harmful effects on the United States' other trading partners in Asia. Therefore, when wielding the knife of protectionism, the United States has to bear in mind that while hurting its adversary, it will also hurt itself and its friends.

On the other hand, Asia is no longer the Asia of yesterday. Asia has become a new center of economic growth in the world. Especially, the East Asian region has shown unprecedented economic vitality. In recent years, the focus of U.S. foreign trade and the U.S. economic relations has also begun to be shifted toward the Asian region. In addition, the economic strengths of the Asian countries are continuously growing, and the Asian countries have huge market

potentials. Thus, the United States would not dare to take bold actions lightly. In the near term, the Clinton administration is likely to adopt some tough measures to deal with China and Japan, but is unlikely to go very far. From a long-term perspective, the prospects for U.S. trade with Asia are still promising. Maintaining good trade relations between the United States and Asia is not only necessary to the developing region of Asia, but also in accord with U.S. interest.

## NORTHEAST ASIA

### Analysis of DPRK Situation

93CM0323A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 223, 8 Apr 93 pp 9-11

[Article by Tian Zhongqing: "Change in the Overall Situation on the Korean Peninsula"]

[Text] A series of recent events have again moved the Korean Peninsula, which had been such as hotspot during the cold war, again into the limelight. In its resolution of 25 February of this year, the board of directors of the International Atomic Energy Commission [IAEC] demanded of North Korea that it agree to a special inspection by the said commission before the end of March, while at the same time the United States and South Korea had completed preparations for a joint "Spirit of Cooperation" military exercise. North Korea reacted vehemently against these events. Jin Zhengri commander in chief of the North Korean People's Army, issued an order declaring a state of war preparedness for the entire country, the entire people, and the entire Armed Forces, to guard against any pre-emptive attack by the United States and South Korea against North Korea at the time of their "Spirit of Cooperation" military exercises. Four days later, the North Korean Government declared its withdrawal from the Nuclear Proliferation Treaty. This move came as a great shock to South Korea and also to such other countries as the United States and Japan, who were then eagerly contemplating what countermeasures to take, giving consideration to imposing certain sanctions against North Korea or even military measures. The relaxed atmosphere in the political and military situation that had gradually developed during the last two, three years had thus again changed into an extremely alarming overall situation.

### Dramatic Reversal of the Trend Toward Relaxation

Starting in the latter years of the 1980's, following the end of the cold war between East and West, the overall situation on the Korean Peninsula became relaxed, and in order to put an end to the North-South confrontation, negotiations, meetings, and interchanges were instituted at different levels to achieve reunification of the motherland. After both the North and the South joined the United Nations in September of 1991, a further rapid rapprochement was achieved between the two sides. In December of the same year, the prime ministers of North and South Korea signed the "Agreement for the Peaceful Solution of Conflicts, Mutual Nonaggression, and for Cooperation and Interchanges" and the "Joint Declaration Against Nuclearization of the Korean Peninsula." World opinion regarded the signing of these two documents as an

"event of monumental significance" for the overall situation on the Korean Peninsula.

Political relaxation on the Korean Peninsula was continuously progressing until September 1992. During this period of somewhat over six months, the prime ministers of North and South Korea held three conferences, and reached an understanding regarding the organization of a joint military committee, a joint committee for cooperation and interchanges, and a Panmunjom liaison office. They signed supplemental agreements to the North-South agreements on the three subjects of peaceful resolution of conflicts, mutual nonaggression, and cooperation and interchanges. They also signed an agreement for the setting up of a joint committee for the peaceful resolution of conflicts.

Following improvement of the political atmosphere, initial steps were taken for economic exchanges between North and South. In 1991, South Korea exchanged rice for North Korean coal, which was the de facto start of direct trade. During the two years of 1991 and 1992, the total value of mutual trade was somewhat above \$350 million. In the last few years, economic cooperation within the Northeast Asia region was actively concerned with plans for the development of the Tuman River, and both North and South Korea displayed great enthusiasm for the development and utilization of the lower reaches of the Tumen River within the boundaries of North Korea. This issue was discussed on several occasions at meetings of economic personnel from both sides. Jin Yuzhong, chairman of the board of one of South Korea's largest financial groups, the Dayu Group, visited Pyongyang and discussed with North Korea the establishment of an export processing zone in the Nanpu District. An even more spectacular event was the visit to Seoul of North Korea's deputy prime minister in charge of economic affairs Jin Daxuan at the invitation of South Korea's deputy prime minister Cai Yukuei for the discussion of economic cooperation. During the first half of 1992, a South Korean official in charge of economic affairs had optimistically expressed the hope that this year and in the following years North Korea will become the primary trade and investment counterpart for South Korea.

However, after October last year, the overall political situation on the Korean Peninsula deteriorated rapidly. South Korea and the United States declared that because North Korea is not willing to give up efforts to develop nuclear weapons, South Korea and the United States will stop executing the second phase of the planned withdrawal of U.S. troops from South Korea. At the same time, South Korea and the United States decided to renew again the "Spirit of Cooperation" military exercises, participated in by both South Korean and U.S. forces. These joint military exercises, named "Spirit of Cooperation," had been started in 1976 and had been held every year since, with the exception of 1992. The exercises had involved large contingents of military aircraft and naval vessels, and in a record year as many as 200,000 military personnel. North Korea had detested these "Spirit of Cooperation" exercises as something utterly hateful and had considered them as

military provocation and blackmail. In 1992, the "Spirit of Cooperation" exercises were, for the first time, not held, but South Korea and the United States decided to resume them this year, which evoked North Korea's vehement indignation and protest. The ninth meeting of North and South Korean prime ministers, originally scheduled to be held in Seoul on 21 December last year, was therefore cancelled, and the overall situation on the Korean Peninsula thus again reverted to the dangerous state of "inability to achieve a final settlement because of a continuing mental confusion."

#### Quarrel Over Inspection of Nuclear Activities

Even though the first two years of the 1990's saw quite some relaxation in what used to be a state of confrontation on the Korean Peninsula, new dark and heavy clouds gathered over the Korean Peninsula due to accusations that North Korea was developing nuclear weapons, and due to the demand for a strict inspection of North Korean nuclear activities. As early as in 1990, some U.S. newspapers reproduced data and photos from the U.S. Department of Defense and the U.S. Central Intelligence Agency, showing that North Korea had already acquired capability for the development of nuclear weapons. Some newspapers in the United States, in Japan, and in South Korea printed photographs of North Korean nuclear reactors and nuclear plants, photos that were said to have been taken by U.S. military satellites. Most of the exposures were from a nuclear research establishment at Ningbian Chun in Pingan Beidao, only 80 km from Pyongyang. In November of 1991, the head of the U.S. Central Intelligence Agency, Robert Gates, took it upon himself to declare that North Korea "will manufacture an atomic bomb within six months." The Korean Democratic People's Republic issued a categorical denial of the report and accusations by the United States, Japan, and South Korea. Chairman Kim Il-sung clearly stated that North Korea has no intentions of manufacturing nuclear weapons, and that it also did not have the capability to do so. Even so, the United States, Japan, and South Korea continued to repeat their allegations, and, furthermore, demanded that the North Korean Government allow a nuclear inspection by the IAEA.

In January of 1989, North Korea decided to sign the International Nuclear Security Agreement and also agreed to allow the nuclear inspection by the IAEA. As from May, the IAEA carried out six nuclear inspections in North Korea with the result that the IAEA did not find any evidence for the development of nuclear bombs, and found that in general the nuclear technology of North Korea was still at a low level, but that North Korea possesses the capability of manufacturing plutonium and for its reprocessing. North Korea felt that the conclusions arrived at from the inspections were in its favor, and that this should put to rest the issue of further inspections. However, the United States, Japan, and South Korea expressed the opinion that the objectives submitted for inspection by the IAEA had been provided by North Korea, which hereby concealed the places where nuclear weapons were being developed.

Actually, there are differences of opinion even within the U.S. Government with regard to the assessment of nuclear activities in North Korea. The Secretary of Defense in the Clinton administration, Les Aspen, acknowledged that "opinions differ" in the U.S. intelligence establishment as to whether North Korea possesses nuclear installations, and the recently appointed head of the Central Intelligence Agency, James Woolsey, was also very vague in his testimony before Congress. He was unable to confirm whether North Korea after all has an atomic bomb, but merely stated that "they really could possibly have manufactured sufficient fissile material for the production of at least one nuclear weapon."

#### **Pressure Will Not Solve the Problem**

As early as in the beginning of 1991, when the Western press spread the news that North Korea was researching and developing nuclear weapons, the South Korean minister of defense, Kwon Yong-hae threatened that if North Korea should refuse to allow a nuclear inspection by the IAEA, South Korea would adopt measures, including the possible use of special engineering troops or air force, to destroy North Korea's nuclear facilities. Most recently, at the time when North Korea decided to withdraw from the Nuclear Nonproliferation Treaty, there appeared a continuous stream of articles demanding that various pressures be applied on North Korea.

According to a United Press report, the Japanese Government has decided to suggest to the IAEA to pass a resolution condemning North Korea, also suggesting to submit this issue to the Security Council for resolution, and also suggesting to impose economic sanctions. U.S. Secretary of State Christopher stated if North Korea will not soon alter its stand, the United States might be "forced to consider further action," which could entail asking the UN Security Council to impose economic sanctions against North Korea. Some U.S. congressmen have even threatened that consideration may be given to the use of advanced accurate guided missiles to destroy nuclear objectives in North Korea.

Opposition to any kind of nuclear weapon on the Korean Peninsula is the uniform stand of the international community, especially of all Asia-Pacific countries. The

appearance of nuclear weapons on the Korean Peninsula would, first of all, be an extremely serious strain on North-South relations. It would not only freeze economic and all other interchanges for an indefinite period of time, but could again push both sides to the brink of war. It would furthermore adversely affect the security and stability in the Asia-Pacific region, and in particular impel Japan to develop nuclear strike capability. Once developments of this nature have been stimulated, all Asian countries would be made to feel highly insecure. To prevent such an eventuality, all countries and organizations involved in the argument over nuclear inspections must of necessity try to resolve the problem through patient negotiations. Some countries are now considering placing the issue before the Security Council and to have economic and other sanctions imposed on North Korea in the name of the Security Council. This is obviously not a wise way to resolve the problem. The Nuclear Nonproliferation Treaty only stipulates that withdrawal from the treaty will become effective three months after notice of withdrawal, but it does not stipulate that penalties could be imposed on the withdrawing country, and internationally there is also no precedent of this kind. Talk of destroying North Korean nuclear installations by military action is irresponsible; it is preposterous talk by people who want to plunge the world into chaos. If it should happen that North Korea would be attacked, it would of course put up a fight to the bitter end. Would that not end in a most frightening catastrophe for the entire Asia-Pacific region?

In its handling of the overall situation on the Korean Peninsula, the Clinton administration is now still using much threatening language, but at the same time tuning down the pitch. President Clinton himself uses rather conciliatory language when discussing this issue. On the other hand, the North Korean Government has also declared that now that the "Spirit of Cooperation" military exercises are basically over, it is lifting the state of military preparedness. United States and North Korean diplomatic personnel stationed in China have also held special meetings. Public opinion in many countries has given expression to hope that relaxation may soon again be achieved in the relations which had become so strained due to the problem of nuclear weaponry.



**Article Calls for Study of Deng Xiaoping 'Theory'**  
93CM0379A Shanghai JIEFANG RIBAO 24 Jun 93  
pp 1, 10

[Article by Jin Binghua: "Emancipating the Mind and Seeking Truth From Facts Are the Essence of the Theory of Building Socialism With Chinese Characteristics—Some Gains From Studying Comrade Deng Xiaoping's Theory of Building Socialism With Chinese Characteristics"]

[Text] In his report delivered at the 14th CPC Congress, Comrade Jiang Zemin points out: "Emancipating the mind and seeking truth from facts are the essence of the theory of building socialism with Chinese characteristics, and the ever-effective device which can ensure that our party will forever be full of vitality." During the 14th CPC Congress, Comrade Jiang Zemin also pointed out, when participating in the discussion meeting of the Shanghai delegation: "A critical aspect of the work of implementing Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics is to unwaveringly practice emancipating the mind and seeking truth from facts, combining the two in an organic way, so as to facilitate the rapid, fine, and healthy development of the reform and opening to the outside world and the modernization construction." Currently, our propaganda and ideological work is faced with a heavy task. To accomplish this task well, it is imperative to make Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics the fundamental guiding theory, and regard arming all in the party with this theory as the fundamental task. In our propaganda and ideological work, we must unwaveringly practice emancipating the mind and seeking truth from facts, be united, advance bravely, do real work, and more effectively accelerate the reform and opening to the outside world and modernization construction, so as to provide services for the effort to achieve more successes in the cause of building socialism with Chinese characteristics. This article will discuss some gains from study in relation to the issues of how to understand and grasp the proposition that emancipating the mind and seeking truth from facts are the essence of the theory of building socialism with Chinese characteristics.

**The Theory of Building Socialism with Chinese Characteristics Was the Product of Summing Up Historical and Practical Experience on the Basis of Emancipating the Mind and Seeking Truth From Facts**

The 14th CPC Congress report points out: "The theory of building socialism with Chinese characteristics has been formed and developed gradually—on the basis of summing up the historical experience regarding socialism's successes and setbacks in our country and the historical experience regarding the rise and fall of socialism in other countries—in the practical process of reform and opening to the outside world and of socialist modernization in our country under the historical condition in which peace and development have become the main themes of the times." By reviewing the process of the formulation and development of the theory of building socialism with Chinese characteristics, we can clearly see that emancipating the mind and seeking truth from facts have all along been the

precondition for the formulation and development of this theory, which was the product of summing up historical and practical experience on the basis of emancipating the mind and seeking truth from facts.

How to build socialism and how to consolidate and develop socialism after the proletariat seized state power and set up the socialist system, especially in economically and culturally backward countries such as China? This was a tough and practical issue during a long period in history, and has also been an important issue with historical significance that the Chinese Communists have been trying to resolve. As should be pointed out, in the process of building socialism, we have had prominent achievements in exploring the way to build socialism. In the early years of the PRC, the Soviet-model socialist system was able to concentrate material, financial, human and intellectual resources, and was effective in terms of building up the preliminary framework of our country's national economy. Such a situation was to some extent objectively inevitable under the historical circumstances of the times, and produced positive effects. But, with the expansion of production and the raising of production standards, it was discovered that such a highly centralized system of planned economy contained many defects, was increasingly inadequate to meeting the requirements of contemporary economic development, and was conducive neither to mobilizing the positive forces of all types nor to the development of productive forces. As early as the mid-1950's, the Communist Party of China began to conduct thinking and exploration on ways to overcome those defects, and to look for an approach to socialism appropriate to the actual situation in China. The delivery of the well-known report, "On the Ten Major Relationships," by Comrade Mao Zedong signified that the Chinese Communists had begun to reflect on the Soviet model, and had begun the arduous effort to explore a way to build socialism in China. In the process of such exploration, the party's first-generation central leadership group with Comrade Mao Zedong at the core put forward many important ideas appropriate to the actual situation in China, and some of the ideas were put into practice, resulting in great historic achievements. Nevertheless, because of the limit imposed by the historical circumstances, a lack of experience, and the guiding-theory errors committed by Comrade Mao Zedong in his later years, such exploration was not completed in the end. The responsibility for resolving this important issue fell, historically, on the shoulder of the party's central leadership group with Comrade Deng Xiaoping at the core.

The Third Plenum of the 11th CPC Central Committee and the party's central leadership group, with Comrade Deng Xiaoping at its core, formed at that plenum took on their historical responsibility, accomplishing the great historic transition and starting a new era of development of the socialist cause in our country. The Chinese Communists thus began to have a correct approach to building socialism and to consolidating and developing socialism. Such a development was discussed by Comrade Deng Xiaoping in his opening speech to the 12th CPC Congress in the following way: "In carrying out modernization



construction, we must proceed from the actual situation in China. Whether in revolution or in construction, it is always necessary to learn from foreign countries and consult their experience. But the mechanical copying and application of foreign practices and models will get us nowhere. We have had many lessons in this respect. We must integrate the universal truth of Marxism with the actual situation in our country, find our own approach, and build socialism with Chinese characteristics—this is the basic conclusion that we have reached on the basis of summing up historical experience gained over a long period of time." Here, Comrade Deng Xiaoping emphasizes "proceeding from the actual situation in China," "integrating the universal truth of Marxism with the actual situation in China, finding our own approach, and building socialism with Chinese characteristics." The core ideas here are those of emancipating the mind and seeking truth from facts.

The process—since the Third Plenum of the 11th CPC Central Committee—in which the Chinese Communists have found the approach of building socialism with Chinese characteristics has also been the process of the formulation and development of Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics.

*First, the theory of building socialism with Chinese characteristics represents the conclusion reached by Comrade Deng Xiaoping through acquiring new understanding of the theory and practice of socialism in the spirit of emancipating the mind and seeking truth from facts.* A true Marxist-Leninist, Comrade Deng Xiaoping once pointed out, must carry forward and develop Marxism-Leninism on the basis of taking account of current conditions; the person who does not carry forward Marxism-Leninism on the basis of holding new ideas and views is not a true Marxist-Leninist; and, holding on to out-dated views can only result in lagging behind or even defeat. We should not demand that Marx and Lenin solve current problems, but should, as Lenin and Mao Zedong did, be good at understanding and developing Marxism on the basis of taking account of the changed conditions. Having summed up the historical experience regarding socialism's successes and setbacks in our country and having consulted the historical experience regarding the rise and fall of socialism in other countries, Comrade Deng Xiaoping repeatedly said to all in the party that it was necessary to correctly handle the issue of mistakes made by Comrade Mao Zedong in his later years, that it was necessary to adhere to the fine traditions—advocated by Comrade Mao Zedong—of seeking truth from facts, of the mass line, and of maintaining independence, and that it was necessary to scientifically sum up Comrade Mao Zedong's theory and practice of socialism, which should be regarded as our ideological wealth to be used in the new exploration effort. With great political courage, Comrade Deng Xiaoping supported the conducting of the discussion of the proposition that practice was the sole criterion of truth, broke through the confines imposed by the personality cult and the two "whatever" propositions, and re-established the ideological line of emancipating the mind and seeking

truth from facts. The erroneous "leftist" policy of "considering class struggle the key link," a policy which was not appropriate to socialist society in view of such society's essential features and main contradictions, was resolutely renounced at the Third Plenum of the 11th CPC Central Committee. He reiterated—many times—and reestablished the correct line of thought according to which the focus of work of the party as a whole should be shifted to economic construction and according to which it would be necessary to build socialism on the basis of considerations of the actual situation in China. In March 1979, Comrade Deng Xiaoping summed up our party's consistent political principles and expressed them in the form of the four cardinal principles, thereby providing clear political guarantees for the socialist modernization construction in the new era. From the time around the Third Plenum to the mid-1980's, he gave his support, on several occasions, to the rural reform, urban reform, and institutional reform, holding that "reform is a second revolution." In August 1989, he raised the important issue of reforming the party's and state's leadership system, and put forward ideas on the basic principles on reforming the political system. He was also the first to raise the issue of the construction of spiritual civilization and to propose the four criteria on cadres. The nine components of the theory of building socialism with Chinese characteristics—expressed in a succinct form at the 14th CPC Congress—were all formulated on the basis of summing up historical experience under the guidance of the principles of emancipating the mind and seeking truth from facts.

*Second, the theory of building socialism with Chinese characteristics was also the result of Comrade Deng Xiaoping's effort to sum up the masses' practical experience in the spirit of emancipating the mind and seeking truth from facts.* The Marxist view has always been that socialism is a cause of the masses of the people. Having the mass line is a fine tradition of the Communist Party of China. While leading the masses of the people in the effort to explore a new approach to socialist construction, Comrade Deng Xiaoping has never confined himself to the theories or conclusions already contained in the writings of Marxism-Leninism. He is good at listening to the masses, and is even better at summing up the masses' experience, so as to formulate on the basis of summing up practical experience, the various principles on building socialism with Chinese characteristics, thereby carrying out bold theoretical creation. The world-renowned reform of China's rural economic system, from the adoption of the rural output-linked contract responsibility system to the development of township enterprises, was entirely the creation of the masses. In the beginning, the reform was not accepted by a majority of people, and it was Comrade Deng Xiaoping who was the first to give enthusiastic support and approval. Furthermore, it was Comrade Deng Xiaoping who summed up and succinctly expressed the relevant ideas in theoretical terms and who advocated the ideas. In the process of reforming the economic system, practice has always demanded that the relationship between planning and market be handled correctly, but the traditional views always considered them two poles in absolute opposition

or regarded them as embodying the fundamental opposition between two social systems. It was again Comrade Deng Xiaoping who summed up the experience regarding the rural reform and the experiments in the Special Economic Zones, who consulted other countries' successful practices, and who carried out bold theoretical creation. Our party's putting forward in 1984 the idea of developing planned commodity economy based on public ownership was the first instance of breaking away from the traditional views on this issue. In early 1992, in his important southern-inspection remarks, Comrade Deng Xiaoping pointed out: planned economy is not tantamount to socialism; capitalism also has plans. Market economy is not tantamount to capitalism; socialism also has market. The essential difference between socialism and capitalism does not lie in whether there is more planning or more market. Regarding market economy as a means and integrating it with the socialist system represented another momentous round of emancipation of the mind. This time, in accordance with the important remarks by Comrade Deng Xiaoping, the 14th CPC Congress set the goal of establishing a system of socialist market economy. This development was a further instance of breaking away from the traditional views. The idea of building socialism with Chinese characteristics put forward by Comrade Deng Xiaoping has been formulated and developed on the basis of practice and through scientifically summing up the experience gained in the masses' practice.

*Third, Comrade Deng Xiaoping conducted new efforts to analyze and sum up the main theme of the times in the spirit of emancipating the mind and seeking truth from facts, and consulted the modernization construction experience of other countries, especially the experience of the existing developed capitalist countries and of the less developed countries, thereby giving clear era-based features to the theory of building socialism with Chinese characteristics.* Comrade Deng Xiaoping would adhere to the principle of proceeding from the actual situation in China, but would never adopt the practice of closing oneself off. He advocates that in building socialism, China should seek modernization, open up to the world, and focus on the future. Consequently, he not only watches closely big events around the world, but also make efforts to look for opportunities helpful to China's development. With sharp observation, he has noticed that peace and development have become the two main themes of today's world after a series of complicated changes in the situation in the world since the beginning of gradual relaxation of relations between the East and West in the mid-1950's, and, in addition, because of the effects of the continuing progress in science and technology. According to him, this situation has provided an extremely favorable opportunity for China's development, and also requires that China's economic, educational, scientific and technological, and political systems be reformed. It was against such a general background that he put forward the proposition that "science and technology are the most important productive force," made the decisions to open up to the outside world and to establish the Special Economic Zones, and emphasized that the development of Pudong, Shanghai,

should be made the leading project in the effort to implement the reform and opening to the outside world during the 1990's, that all coastal and frontier regions should be opened up, and that it was necessary to make use of capitalism and to establish an externally oriented economic system based on socialist market economy. Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics was the product of a thorough effort to sum up the development experience of the world.

As shown, the formulation and development of the theory of building socialism with Chinese characteristics has been the result of Comrade Deng Xiaoping's effort to sum up historical and practical experience on the basis of emancipating the mind and seeking truth from facts. The theory was the product of integrating the basic principles of Marxism-Leninism with the realities in China and the special circumstances of the times, represents the continuation and development of Mao Zedong Thought, is the crystallization of the collective wisdom of all in the party and all in the nation, and is the most precious spiritual wealth of the Communist Party of China and the Chinese people.

**Emancipating the Mind and Seeking Truth From Facts Are the Ideological Foundation for, and Living Soul of, the Theory of Building Socialism With Chinese Characteristics**

Comrade Deng Xiaoping is the model of emancipating the mind and seeking truth from facts. Emancipating the mind and seeking truth from facts are inseparable. Only by emancipating the mind would it be possible to seek truth from facts; and, only by seeking truth from facts would it be possible to truly emancipate the mind. It is necessary to make the principles of emancipating the mind and seeking truth from facts the ideological foundation for our efforts to examine issues, understand the world, and resolve contradictions. *The reason why the 14th CPC Congress gave a very high status to the principles of emancipating the mind and seeking truth from facts, regarding them as "the essence of the theory of building socialism with Chinese characteristics and the ever-effective device which can ensure that our party will be forever full of vitality in terms of both its ideas and its work" was, fundamentally, that the principles of emancipating the mind and seeking truth from facts have been the ideological foundation for, and the living soul of, the theory of building socialism with Chinese characteristics and for the world outlook and methodology which provide guidance to us in all areas of our work.*

In the process of formulating and developing the theory of building socialism with Chinese characteristics, Comrade Deng Xiaoping has always emphasized the extreme importance of the question of whether the party's ideological line is correct or not. The process of formulating the theory of building socialism with Chinese characteristics started from the effort to correct the problems in our party's ideological line. In a bold revolutionary spirit and with a careful, scientific attitude, Comrade Deng Xiaoping led and supported the large-scale discussion of the proposition that practice was the sole criterion of truth, promoting the



emancipation of people's mind, thereby providing ideological and theoretical foundations for the reform and opening to the outside world in the new era. Comrade Deng Xiaoping pointed out: "If a party, or a country, or a nation acts always in accordance with books, is ossified in thinking, and holds blind faith in things in a big way, then it will not be able to advance, and will lose its ability to live, resulting in the perishing of the party and the state." "Only by emancipating the mind, seeking truth from facts, always proceeding from the actual situation, and integrating theory with reality, would it be possible to proceed smoothly with our socialist modernization effort, and to successfully develop our party's theories of Marxism-Leninism and Mao Zedong Thought." Later, Comrade Deng Xiaoping continued to reiterate the importance of adhering to the party's correct ideological line. In the spring of 1992, he pointed out in his southern inspection remarks: "The success of our reform and opening to the outside world did not depend on books, but on practice; the method has been to seek truth from facts." Therefore, the ideological line of emancipating the mind and seeking truth from facts and of always proceeding from the actual situation not only was the logical and historical starting point in the initial process of formulating the theory of building socialism with Chinese characteristics, but has also been the ideological precondition for further perfecting and developing the theory.

*The reason why we consider the principles of emancipating the mind and seeking truth from facts the essence of the theory of building socialism with Chinese characteristics is that they are the philosophical foundation for the theory.* When articulating the party's ideological line, Comrade Deng Xiaoping once pointed out in more profound, philosophical terms: "Seeking truth from facts is the foundation for the world outlook of the proletariat and the foundation for the theory of Marxism." "Marx and Engels established the ideological line of dialectical materialism and historical materialism; Comrade Mao Zedong summed up the line, using four Chinese characters—seeking truth from facts—to express the idea involved." "Seeking truth from facts, always proceeding from the actual situation, integrating theory with reality, and adhering to the proposition that practice is the sole criterion of truth represent our party's ideological line." "After the smashing of the Gang of Four and since the Third Plenum of the 11th CPC Central Committee, we have formulated our correct ideological line, political line, organizational line, and a series of general and specific policies. What is the ideological line? It is to adhere to Marxism and to Marxism's dialectical materialism and historical materialism; that is, it is adhere to the principle of seeking truth from facts advocated by Comrade Mao Zedong." "To emancipate the mind is to make thinking correspond to reality and to make the subjective correspond to the objective, that is, to seek truth from facts. In the future, in order to truly unwaveringly practice seeking truth from facts in all areas of work, it is imperative to continue to emancipate the mind."

*From all those statements made by Comrade Deng Xiaoping, we can see that the process of formulating and developing the theory of building socialism with Chinese characteristics has always been guided by the scientific principles of Marxism's dialectical materialism and historical materialism. The succinct expression in Chinese—"emancipating the mind and seeking truth from facts"—is exactly the firm ideological and philosophical foundations for the formulation and development of the theory of building socialism with Chinese characteristics.*

The ideological line of emancipating the mind and seeking truth from facts has profound philosophical implications: First, the fact that the ideological line requires people "to always proceed from the actual situation" reflects the Communists' world outlook which entails respect for reality and for the masses' practice, and also provides the necessary precondition so that people can acquire correct understanding and ideas and formulate correct policies and measures. Second, the core of the ideological line is the principle of seeking truth from facts, that is, that people should carry out the processing work of shedding the crude materials and retaining the refined materials, of shedding the false data and retaining the true data, and of getting from here to there and from appearance to the inner workings, with regard to the facts (historical and current facts and facts pertaining to people's ideological situation) gathered in practice through inquiry, investigation, and fact-finding, so as to understand and grasp the inner laws of things. Third, the phase of examination through practice as required by the ideological line means that we should put our ideas into practice to see whether they are right or wrong, so that people can enter a new stage in their understanding. Fourth, the method of integrating theory with reality and the practice of following that method throughout the process of achieving understanding, the use of which is demanded by the ideological line, are based on adhering to Marxist principles, and also represent development of, and progress in, Marxism achieved through theoretical accounting of the actual situation. The process of emancipating the mind is the process of continuously developing understanding. It cannot be completed in one step, and should not be stopped or terminated. Fifth, emancipating the mind is the precondition for having that ideological line. Comrade Deng Xiaoping says: "What does emancipating the mind mean? The emancipating of the mind that we talk about means to break down the confines imposed by traditional forces and subjective biases, to analyze new situations, and to resolve new issues." If in our thinking we are confined to dogmatic understanding of certain principles and books of Marxism, and do not dare to be creative, then we will not be able to achieve understanding in the category of truth, much less further development of Marxism. Sixth, the ideological line of emancipating the mind and seeking truth from facts also has methodological implications. Comrade Deng Xiaoping points out that the basic principles of Marxism-Leninism and Mao Zedong Thought "must be integrated with the actual situation," that "it is necessary to analyze and study the actual situation and resolve actual problems, and to formulate working policies in view of the actual

situation," and that "in all this lie the most fundamental methods of thinking and working that every Communist must always remember." "We do all our work, including holding meetings, delivering reports, and making decisions, in order to solve problems. The key to whether what we say and do can solve problems lies in whether we provide correct solutions to problems, whether we are good at summing up experience, and whether we can adopt a seeking-truth-from-facts attitude toward objective reality and always proceed from the actual situation." Seventh, only by adhering to this ideological line would it be possible to discard the idealist, metaphysical ideological line. Comrade Deng Xiaoping points out: "If the principles of seeking truth from facts, proceeding from the actual situation, and integrating theory with reality are opposed," "then where would we be led? Obviously, we can only be led to idealism and metaphysics, resulting in setbacks in our work and the failure of the revolution."

*In short, the principle of seeking truth from facts represents both the world outlook and the methodology of the Communists. Only by understanding the intellectual essence of the principles of emancipating the mind and seeking truth from facts in a more profound way, in terms of the philosophy of Marxism's dialectical materialism and historical materialism, would we be able to profoundly understand and grasp the essence of the theory of building socialism with Chinese characteristics, and be able to understand and grasp the living soul of the theory.*

Under the leadership of Comrade Deng Xiaoping, our party reestablished the ideological line of emancipating the mind and seeking truth from facts, and immediately took actions in accordance with the line in the process of doing practical work involving understanding new situations and issues as well as providing solutions to the issues. In the process of formulating and developing the theory of building socialism with Chinese characteristics, Comrade Deng Xiaoping has proposed a series of additional important ideas, principles, policies and measures, including the idea that the essence of socialism is the development of productive force; the idea that reform is also the liberation and development of productive force; the three-step strategy; the principle of creating common prosperity through letting some people get rich first; the principle that the reform of the economic system must be accompanied by supporting reform of the political system; the idea that science and technology are the most important productive force; the principle that it is necessary to carry out the construction of both spiritual civilization and material civilization, and to be tough on both fronts; and the idea of promoting the peaceful unification of the motherland through efforts to implement the policy of "one country, two systems." All those ideas, principles, policies, and measures manifest the spirit of emancipating the mind and seeking truth from facts. All of them have been based on consideration of the actual situation and based on consideration of the differences in location and in time. In this way, appropriate measures and approaches are adopted in view of the different times and locations so as to ensure that they can be implemented successfully—all this

embodies the intellectual brilliance of Marxism's dialectical materialism and historical materialism. Comrade Deng Xiaoping's creative use of dialectical materialism and historical materialism for guiding practice provides the most lively teaching material that can be used for teaching us how to correctly understand and grasp the essence of the theory of building socialism with Chinese characteristics, and sets a brilliant example for us. Therefore, to truly arm ourselves with the theory of building socialism with Chinese characteristics and to use the theory to guide our actions, it is first of all necessary to unwaveringly practice emancipating the mind and seeking truth from facts. Only in this way would we be able to truly grasp the living soul of the theory of building socialism with Chinese characteristics, be able to seize opportunities in practice, dare to think, dare to be bold, and dare to experiment, thereby continuously furthering the development of the reform and opening to the outside world and the socialist modernization construction.

In order to adhere to the ideological line of emancipating the mind and seeking truth from facts and the working method characterized by emancipating the mind and seeking truth from facts in a correct manner, we must also correctly understand and grasp the relationship between emancipating the mind and seeking truth from facts. Comrade Deng Xiaoping says: "In the future, in order to truly unwaveringly practice seeking truth from facts in all areas of work, it is imperative to continue to emancipate the mind." "To emancipate the mind means to make thinking correspond to reality and to make the subjective correspond to the objective, that is, to seek truth from facts."

*Emancipating the mind and seeking truth from facts are in a relationship of dialectical unity. It is absolutely necessary not to sever the organic tie between them. Only by emancipating the mind would it be possible to seek truth from facts; and, only by seeking truth from facts would it be possible to truly emancipate the mind. To act in accordance with the idea that emancipating the mind and seeking truth from facts are in a relationship of unity, we must—in the process of building socialism with Chinese characteristics—resolutely implement the center's line and general and specific policies, proceed from the actual situations in our respective localities or units, emancipate our mind, think hard, study new situations, solve new problems, and take into account local conditions, thereby formulating a set of practical implementation measures and carrying out work in a creative way.*

**Unwaveringly Practicing Emancipating the Mind and Seeking Truth From Facts and Always Proceeding From the Actual Situation Represent an Important Principle and Policy That Must Be Followed in Propaganda and Ideological Work**

Emancipating the mind and seeking truth from facts are the essence of the theory of building socialism with Chinese characteristics, and also represent an important policy and principle which must be followed in our propaganda and ideological work.



The principles of emancipating the mind and seeking truth from facts require that in propaganda and ideological work we be guided—in a fundamental way—by Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics, unwaveringly use this theory to guide all work on the propaganda and ideological front, and persistently endeavor to arm all in the party with this theoretical weapon. The above-discussed is the propaganda and ideological front's most important task. Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics represents the scientific conclusion reached through summing up international, domestic historical and current practical experience on the basis of emancipating the mind and seeking truth from facts. It is the newest product of the effort to integrate Marxism with the actual situation in China, is the Marxism of present-day China, and is a powerful theoretical weapon providing us with guidance in our effort to accomplish our new historical tasks. We, propaganda and ideological workers, must first of all do a good job of conscientiously studying, conducting research on, and publicizing Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics. Persistently working to arm all in the party and all in the nation with Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics is an ideological construction project of fundamental importance. The most fundamental method which we can use to ensure the unwavering adherence to the party's basic line is to unwaveringly use Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics as the basic guiding principle; to make the necessary arrangements so as to make sure that party members at large and the masses will thoroughly study this theory; to understand the great importance of giving the theory the status of guiding principles; to understand and grasp the basic views and intellectual essence of the theory; and to learn from Comrade Deng Xiaoping in terms of his scientific attitude and creative spirit manifested in the process of using the stands, views, methods of Marxism for studying new situations and solving new problems. In the process of study, it is necessary to understand the actual situation regarding the thinking on the part of cadres, party members, and the masses, and to provide pertinent guidance so that everyone can grasp the essence of the theory—emancipating the mind and seeking truth from facts, can get rid of the restrictions imposed by old ideas and old views, can change the mentality entailing the tendencies to adhere to existing practices and to resist new things, can make thinking in line with the changed, new situation and be adequate to satisfying the requirements of the effort to establish a system of socialist market economy, can be bold in exploration and in practice, can be creative all the time, and will endeavor to make Shanghai's economic construction climb another step, thereby further developing the reform and opening to the outside world, giving a new look to the city, and reaching a higher standard in the construction of spiritual civilization.

*The principles of emancipating the mind and seeking truth from facts require that in propaganda and ideological work we comprehensively implement the party's basic line and general and specific policies on propaganda and ideological work. The party's basic line was formulated and developed under the guidance of Comrade Deng Xiaoping's theory of building*

socialism with Chinese characteristics, and is also the concentrated embodiment of the theory. The experience accumulated over the 14 years since the Third Plenum of the 11th CPC Central Committee can be expressed succinctly in the form of one principle: the principle of unwaveringly adhering to the party's basic line guided by the theory of building socialism with Chinese characteristics. In order to do well the propaganda and ideological work, we must continuously enhance the predisposition to voluntarily and resolutely implement and follow the party's basic line, unwaveringly focus on economic construction, adhere to the four cardinal principles, and adhere to the policy of reform and opening to the outside world. In carrying out propaganda and ideological work, it is necessary to make the work serve the central task of economic construction, firmly adhere to the two basic points, correctly understand and handle the relationship between the two basic points, adhere to the principle of carrying out the construction of both material civilization and spiritual civilization together and being tough on both fronts, adhere to such basic general and specific policies on propaganda and ideological work as the policy of "serving two things," the policy of "letting a hundred flowers bloom and letting a hundred schools contend," and the policies of promoting unity and stability, stimulating people's drive, and conducting mainly positive propaganda, have mutual trust and respect, conduct mutual consultation and help, and unwaveringly focus on construction. All this will ensure, in a fundamental way, that the propaganda and ideological work is done in a satisfactory manner.

*The principles of emancipating the mind and seeking truth from facts require that we use materialist dialectics as the basic working method in propaganda and ideological work, and use materialist dialectics' world outlook and methodology to analyze and study new situations and new issues. Continuously endeavor to understand and grasp the new characteristics and laws of the propaganda and ideological work in the new era, and seize the initiative in propaganda and ideological work, in an effort to explore a new way of conducting propaganda and ideological work in the new era. It is necessary to adhere to materialist dialectics; to prevent one-sidedness and the holding of absolute views; and to correctly understand and handle such relationships as the relationship between the construction of material civilization and the construction of spiritual civilization, the relationships between reform, development, and stability, the relationships between seizing opportunities, treasuring opportunities, and making good use of opportunities, the relationship between the social effects and economic gains produced by spiritual products, the relationship between encouraging some people to get rich first and common prosperity, and the relationship between promoting prosperity on the one hand and fighting pornography on the other hand in relation to cultural work, so as to give effective play to the propaganda's and public opinion's role in providing guidance, while accurately controlling the "degree" in propaganda work, in an effort to prevent the phenomenon of moving from one extreme to the other extreme and to make sure that one tendency does not cover up another tendency.*

*The principles of emancipating the mind and seeking truth from facts also require that in propaganda and ideological work we adhere to the party's mass line, always proceed from the interest of the people, always rely on the masses, set the purpose and goal of our work in such a way as to benefit people at the grassroots and the masses, strive to solve the problems about which the masses are concerned, keep the masses informed, make the masses understand the situation so that they may give support, and let the masses participate. It is necessary to pay attention to propaganda techniques, improve propaganda methods, give emphasis to practical effects of work, and oppose formalism so that the propaganda and ideological work can be more appropriate to the actual situation, can be closer to the masses, can be more in line with the masses' demands, and can be more lively and effective.*

Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics is a powerful ideological weapon available to us in our effort to accomplish new historical tasks. We firmly believe that under the guidance of this theory, if only we unwaveringly implement the party's basic line of "one focus, two basic points," emancipate our mind, seek truth from facts, always proceed from the actual situation, seize opportunities, deepen the reform, conduct exploration, make advancement, get united, do real work, and accelerate the reform and opening to the outside world and the modernization construction, we will surely be able to achieve greater successes in the cause of building socialism with Chinese characteristics.

## NATIONAL AFFAIRS, POLICY

**JINGJI CANKAO Analyzes Current Economic Growth***93CE0615A Beijing JINGJI CANKAO BAO in Chinese 30-31 May, 1-2 Jun 93*

[Article in four installments by Bao Yueyang (0545 2588 7122): "China's Economy: Naturally Expansionary"]

[30 May 93 pp 1, 2]

[Text] When economists were making 1993 projections about China's economy at the end of 1992, they generally held that 1993's economic growth trend would slow somewhat, for annual economic growth of about 10 percent, or slightly lower than 1992's 12.8 percent. But the latest figures released by the State Statistical Bureau have exceeded all expectations: First quarter 1993 growth compared to the same period in 1992 was 14.1 percent for GDP, 22.4 percent for GVIO [Gross Value of Industrial Output], and 70 percent for fixed assets investment. During April, the economy continued to grow at a super-high rate, with the first four months bringing growth of 23 percent to GVIO and 68.9 percent to fixed assets investment. So it seems that 1993's economic growth will certainly not stop at 10 percent, with the latest projection being that GDP will grow 13 percent for all of 1993.

**Projections Are Often Low**

Readers who understand China's economic growth conditions in recent years will probably have discovered that since China's economy began to recover in 1991, specialist projections about economic growth have been almost always low. As to industrial and investment growth rates, in particular, while the real figures often differ sharply from the projections by specialists and officials, to the extent that projections need to be constantly revised throughout the year, it sometimes occurs that until November, it remains impossible to make very accurate projections of annual growth. The main reason for this is too many variables and noneconomic factors in China's economy. The situation for 1992 and the first quarter of 1993 illustrate this point even more clearly. At the beginning of 1992, the Central Committee and State Council set the annual economic growth rate at 6 percent, investment growth at 8 percent, and GVIO growth at 12-13 percent, with these planned figures naturally allowing for unforeseen circumstances. And while economists projected an annual economic growth rate of 8-9 percent and GVIO growth of about 15 percent, the real result was growth of 12.8 percent for GNP, 37.6 percent for investment, and a high of 20.9 percent for industrial output based on added value, or over 25 percent based on gross output value.

Reviewing our economic history during the 14 years of reform and opening, it seems that we could say that China's economy is naturally expansionary, with an inherent growth impulse, and even the slightest easing bringing faster growth. It could also be said that China's

economy has no fear of growth not being fast enough, as sharp growth will occur as long as there are no artificial limitations.

**The Three Tightenings and Four Easings Show Our High Economic Elasticity**

Since the 1980's, China's economy has undergone a process of three tightenings and easings. The first was from January 1984 to March 1986. In 1984, macroeconomic policymaking took a slightly "eased" approach to expenditures and bank loans, so that expenditures grew 19.6 percent over 1983, and all loans and money put into circulation grew 28.9 percent and 49.5 percent, respectively, over 1983. Under these conditions, GNP grew 14.7 percent over 1983, fixed assets investment was up 25.6 percent, and GVIO grew 14.9 percent. This resulted in overall public demand far exceeding overall supply, causing sudden price increases of 8.8 percent in 1985. Faced with this situation, the state tightened credit in 1985, so that all loans grew 7.4 percent less than in 1984, and the amount of currency issued grew 24.8 percent less, somewhat easing the overall conflict between demand and supply. But at the same time, problems appeared, such as a shortage of enterprise working capital, a rise in raw materials prices, and a slide in industrial output.

The second was from April 1986 to February 1988. Due to the slide in industrial output and drop in economic efficiency since the last half of 1985, fiscal and monetary policies were both eased beginning in the second quarter of 1986, so that in 1986 all loans, currency issue, and expenditures grew rapidly over 1985 by 33.6 percent, 17.9 percent, and 26.3 percent, respectively, once again intensifying the overall conflict between supply and demand. So the state was forced to practice a dual-tight policy once again in 1987, leaving expenditures to grow only 5 percent, or 21 points less than in 1986, and all loans to grow 14 points less than in 1986, which somewhat controlled the economic overheating.

After April 1988, economic activities took their third twist and turn. Beginning in April, as macroeconomic control was again eased, currency issue again clearly exceeded that for the same period in 1987, once again bringing an overall imbalance to supply and demand. Prices rose further, savings slid, and a wave of panic buying swept the country so that, by August 1988, retail prices were up 23.2 percent, causing price rises of 18.5 percent for all of 1988. Under such severe conditions, the Central Committee and State Council decided to institute a campaign of improvement and rectification of the economy in the fourth quarter of 1988, whose key planks were still a double-tight fiscal and credit policy, supplemented by stern administrative measures. But while these improvement and rectification measures had begun to show results by the last half of 1989, they were overdone, causing a sharp slide in industrial output, with even negative growth by October that had been unprecedented for a decade. So the original plan for three years of improvement and rectification was actually changed beginning yearend 1989, with a slight easing of the overtight fiscal and credit reins, which at the time was called "fine tuning."



This fine tuning that began at the end of 1989 brought a gradual recovery to China's economy so that, by 1991, we were experiencing growth of 12.4 percent for GVIO and 7.7 percent for GNP, actually putting us in a normal year's growth rate. Since the improvement and rectification campaign ended in the fourth quarter of 1991, particularly after Comrade Deng Xiaoping's southern-tour speeches in early 1992, macroeconomic regulation and control tended to be eased, putting our economy into another high-speed growth stage. In 1992, our GNP grew 12.8 percent, making 1992 our second year of highest growth since reform and opening second only to that of 1984. Our high growth rate of 14.1 percent for the first quarter of 1993 is pushing right up against the 14.7 percent for 1984.

It is not hard to see from this process of economic tightenings and easings that China's economic growth capability is like a spring, with expansion being its basic nature. While pressure may suppress it, easing enables it to very quickly spring back.

#### **We Need Utilization and Guidance**

As the current foreign and domestic situation is an opportunity for China, which we must seize to speed up our development, China's economy needs high growth. In this sense, while China's economic expansionism is positive, showing the great enthusiasm of our people for faster economic development, it needs to be noted that China's current economic system is still far from being a mature market economy, being rather in a period of transition from planned to market economy. So our economic growth is certainly not completely in accord with economic laws, or it could be said that part of our growth is false and unhealthy.

We might as well analyze the inherent factors in China's economic expansionism. Historically, all Chinese regions, sectors, and enterprises have always been subject to blind, expansionist, impulse forces, which have never been substantially improved in our 14 years of reform. We remain subject to widespread phenomena, such as disregard for the real possibilities of national conditions, national might, and resource sustainability, unchecked construction of manufacturing-industry projects, competition for production growth rates, an emphasis on quantitative growth, and a disregard for long-range resource disposition. For instance, as our investment-system reform is not thorough, we have not built the corresponding responsibility system for investment policy, efficiency, and risk, with many factors such as the leadership's political-merit mindset and selfish departmentalism, still directly interfering with our investment establishment and orientation, and projects being built simply according to official will being nothing new. Consequently, the phenomena of duplicate construction and unchecked investment remain quite prevalent, with the day that many projects go into operation coinciding with the time of market saturation. Most of the utilization rates for our key manufacturing-industry products are under 70 percent, with utilization rates below 50 percent for those such as vacuum cleaners, air conditioners, color TVs, and refrigerators, so that much production capacity is idle.

[31 May 93 p 1]

[Text] In 1991, China's GNP grew 7 percent over 1990, along with growth of 2.9 percent in our overall retail prices, 3.4 percent in overall consumer prices for urban and rural residents, and 8 percent in the cost of living price index for employees in 35 large- and medium-sized cities.

In 1992 our GNP grew 12.8 percent, along with growth of 5.4 percent in our national retail prices, 6.4 percent in the cost of living price index for urban and rural residents, and 10.9 percent in consumer prices for residents in 35 large- and medium-sized cities.

In the first quarter of 1993, our GDP grew 14.1 percent, along with growth compared to the same period in 1992 of 8.6 percent in our national retail price index, 10.5 percent in the cost of living price index for urban and rural residents, 15.7 percent in that for 35 large- and medium-sized cities, and 38 percent for capital goods prices.

These three groups of figures show that as economic growth rates accelerate, prices rises also clearly climb. While economic growth is not necessarily linked to inflation, too high economic growth rates under China's current economic system are certainly easily associated with inflation. It could also be said that a certain degree of inflation is a hardly avoidable cost of high economic growth. While it is very hard to explain the link between high economic growth and inflation in a few words, it can roughly be said that high economic growth depends mainly on the driving force of high growth in investment and industrial output, the two high growth rates that are bound to cause a sharp increase in the amount of money put into circulation, a tightening of capital goods supply, as well as rising prices, all of which can become the direct impetus for inflation.

On the other hand, inflation has a certain impact on the pace of reform, particularly that of price reform. A State Statistical Bureau analysis of 1992 price rises finds that natural price-rise components were certainly not dominant, with the major cause being the quicker pace of price reform. For instance, in 1992 China equalized the purchase and sale prices for grain, adjusted the prices of basic products and some public utilities, such as railway freight, coal, and natural gas, deregulated a large group of capital goods and transportation and communication prices on 29 August, reducing the tax categories for capital goods and transportation and communications prices under the control of the State Commodity Prices General Administration and pertinent state sectors from 737 to 89, and lifted on 1 September the maximum or selling constrained prices for beyond-plan capital goods, such as crude, finished petroleum products, rolled steel, pig iron, copper, aluminum, zinc, tin, nickel, soda ash, and caustic soda. It was hard for such a rapid pace of price reform not to cause a certain amount of price rises. It is estimated that 70 percent of 1992's 5.4-percent overall price rises were due to price adjustment and price deregulation. But it needs to be said that a 5.4-percent inflation rate was certainly not a high cost for 1992's price reform, so that the cost of reform was not great.



The price rises in the first four months of 1993 were due on one hand to many of price reform measures in 1992 going into effect in the last half of the year, which affected price levels for the first months of 1993. On the other hand, the pace of price reform in 1993 is also very fast, with many provinces and cities deregulating grain prices.

Price reform is a key and crucial part of China's economic reform, as a market economy first requires a rational pricing system. From a long-range perspective, bringing order to irrational prices, by establishing a price-formation mechanism suited to market economy needs, is a step that China's economic reform must take. So it could be said that inflation is a reform price that must be paid for a time.

While this price is inescapable, a too high price would not be sustainable, so would restrain reform and growth instead. In 1988, due to excessive price rises, making price reform "breakthroughs" impossible, we were certainly forced to slam the brakes on our economic operations, causing our economy to slide from high growth into a slump, which was a painful lesson. Our current 8.7-percent inflation rate has put our macroeconomic policymaking into a double-bind. If we employ stronger macroeconomic control means, by tightening credit, this could dampen our economic growth momentum, and make continued price reform advances difficult. If we allow prices to rise, we might see a recurrence of 1988 conditions. So the professionals hold that we can only continue to apply China's traditional "golden mean" toward our current inflation: While continuing to make sharp economic reform advances and cautiously protect our economic growth momentum, we should use stock markets and housing commercialization to diversify and reduce (inflationary) pressure, along with raising interest rates (certain experts note that the recent current higher interest rates are not high enough) to appropriately control new investment and currency issue.

[1 Jun 93 pp 1, 2]

[Text] Just as in previous periods of high economic growth, our faster economic growth in 1992 has heralded the end of the brief easing of China's basic product supplies, with new "bottlenecks" appearing in areas such as transportation and raw materials.

#### **It Is Going To Be Hard in the Short-Term To Eliminate These Two Major "Bottlenecks"**

Railways are our tightest "bottleneck." Our 1992 freight fulfillment rate was only about 50 percent, with the previous coal supply shortages in certain places being not due to inadequate coal output, but rather to bottlenecks caused by a railway transport shortage. Our national economy is growing at a superhigh rate in 1993, making railway transport in even shorter supply so that, while the Ministry of Railways (MOR) has taken various steps, they have been utterly inadequate. The MOR Planning Office says that its 1992 goods delivery had reached a historical record of 1.523 billion tons. The planned railway goal for 1993 is to deliver 1.56 billion tons of goods, up 37 million tons from 1992, including coal deliveries of 650 million tons,

up 10 million tons from 1992. But in the first quarter of 1993, goods deliveries amounted to only 371.91 million tons, down 0.5 percent from the same period in 1992, and short 12.66 million tons for the year. So in order to fulfill 1993 plans, we will have to ensure an average load of 76,570 cars a day for the last nine months of 1993, or an average load of 2,461 more cars a day than in 1992, meaning that our transport difficulties and pressures will be exceptionally great.

Our railway transport "bottleneck" is going to be hard to eliminate in the short-term, as our ratio of transportation and post and telecommunications investment to overall fixed assets investment dropped steadily during the Sixth and Seventh Five-Year Plans. While this ratio rose somewhat in 1992, its effects will not be felt for some time. While our railway investment in 1993 is going to be the largest in our history, up 68 percent from 1992, it is going to be hard to put our overall transport priority projects into operation in the next two years for a number of reasons. For instance, our new north-south trunkline, the Beijing-Jiujiang line, will not have evolved a comprehensive transport capability until 1996, and the Houma-Yue line for shipping out Shanxi coal will not be completed until 1995. So our heavy transport mission in the last three years of the Eighth Five-Year Plan will put pressure on our existing lines, particularly focused on key trunklines, meaning even greater transport shortages for key trunklines.

Our raw materials "bottleneck" is growing increasingly glaring. In 1992, while our national iron and steel output reached 80 million tons, up 9 million tons from 1991, and setting a record for increased output in one year, with correspondingly higher rolled steel output, even such large increases were unable to meet demand. By November 1992, not only were construction wire rods still in short supply, reaching a price of 3,300 yuan a ton in some places, but even production materials were also generally in short supply with high prices, with the cold-rolled sheets produced by plants, such as Baoshan and Wushan, catching up in price to imports, but still often being in short supply. Certain steel mills had collected in advance 1993's goods payments as early as October 1992. The prices of construction-use rolled steel, such as threaded steel, is up to 3,300-3,500 yuan per ton, while steel rods are at 3,200-3,400 yuan per ton. During our period of economic overheating in 1988, construction-use rolled steel was averaging not more than about 1,900 yuan per ton, making current prices 85 percent higher! Moreover, this exceptionally brisk rolled steel market is occurring while rolled steel imports are up sharply. Meanwhile, cement, timber, plate glass, machinery, and electronic equipment, and nonferrous metal prices are also skyrocketing. Our capital goods prices rose about 25 percent in 1992.

In the first quarter of 1993, our capital goods prices were up 38 percent from the same period in 1992. By mid-January, Kunming's wire rod price had reached 3,800 yuan a ton, and Chengdu's cement (#425 common sulphate cement) and gasoline (#90) prices had reached 650 yuan and 4,900 yuan a ton, respectively. By the end of

February, the price of all types of construction-use rolled steel in all major cities was 3,300-3,700 yuan a ton.

In light of current conditions, the mid- and short-term prospects for raw materials supply are not optimistic, as the ratio of raw materials industry investment to overall fixed assets investment is dropping steadily.

Relatively speaking, our energy resources "bottleneck" will ease somewhat. Except for shorter supplies of oil, coal remains highly overstocked. While our electric power supplies also basically meet production needs, our energy resources production and investment prospects are quite pessimistic.

In 1992, our gross every output grew only 1.8 percent, including growth of 2.1 percent for raw coal and 0.5 percent for crude. In the first quarter of 1993, our output was up 5.6 percent for raw coal and 0.9 percent for crude, which was out of proportion to our industrial output growth of over 20 percent. Moreover, our energy-industry investment is growing far slower than our overall fixed assets investment. Our energy-industry investment ratio dropped from 28.3 percent in 1991 to 24.9 percent in 1992, and for the first quarter from 33 percent in 1992 to 23.8 percent in 1993. So it can be predicted that if this trend continues, our energy "bottleneck" will become as tight as our railway "bottleneck."

#### **What Are the Causes of These Bottlenecks?**

So why is high economic growth often accompanied by intensified "bottleneck" restraints? State Information Center specialists note the following major causes:

1. Our current macroeconomic control lacks an effective means of dealing with the tendency to emphasize quantitative growth at the expense of short-supply construction. As our reform has intensified, the dominant position of the state in the disposition of resources through directive plans has been sharply weakened, with the number of planned targets for agriculture, industry, commodities, and commerce now under the direct control of the State Planning Commission down to 221, of which only 143 are directive plan targets. But the proper indirect regulation and control system for a market economy has not kept up in a timely way, with economic leverage, such as prices, taxes, interest rates, and exchange rates, still not operating quickly and effectively. So certain fields and links of our macroeconomic control are a "no-man's-land," making it hard to promptly adjust the various structural conflicts and problems that arise in our economic operations.

2. Our market system is unsound with distorted price signals, which has the impact of misguiding our industrial structure. In a sound market economy, resource flow follows the profit maximization principle, so that resources flow toward the sectors where profits can be made. When basic industries have been long undeveloped, causing a large gap between supply and demand, inevitably spurring large price rises, and making profit margins higher than their average for the society, large amounts of funds will flow into these industries and sectors, thus balancing resource disposition and easing "bottleneck"

restraints. But in China at present, certain key capital goods prices, particularly those under planned control, remain controlled, our market system still has great defects, and the high-price, high-profit manufacturing industry often becomes everyone's investment priority, with our investment ratio in basic industries for the last decade having been in a state of steadily progressive decline.

3. As to our fiscal and monetary systems, the profit motives of all key interests are out of line with our national industrial policy. Since state revenue began to practice a "separate system," central revenues have steadily decreased in relative share, while central jurisdiction has not correspondingly decreased, and the centralized-expenditure order has remained. This "big government, small revenues" order leaves central revenues too many difficulties to cope with, directly affecting their investment capability for their commitments to build basic industries and infrastructures, while most local revenue increases are invested in high-price and high-tax projects. The data shows that in the ratio of basic industry investment to capital construction investment, central projects are 40 points higher than local ones. As to our monetary system, the banking regionalization tendency has a very adverse impact on our industrial structure. On the other hand, the reforms to make banking more businesslike have put the profitmaking motive per se out of line with our national credit and industrial policies.

#### **Widening the Bottlenecks: A Basic Short- and Mid-Term Macroeconomic Policy Orientation**

Historically, "bottleneck" restraints not only often accompany high economic growth, but also usually end up stopping it, forcing the state into economic adjustment. So it can be said that "bottleneck" restraints are a dreadful obstacle to high economic growth. In a certain sense, the key to sustained economic growth is effectively widening these "bottlenecks."

In light of the current steady intensification of "bottleneck" restraints, many experts hold that strengthening basic industries should become our basic short- and mid-term macroeconomic policy orientation. As to our current economic conditions, retaking the past route of direct state investment in heavy industrialization would be impossible, as well as being adverse to our system conversion to a market economy. Academics in the State Council Development Studies Center recommend that we ought to make full use of industrial policy and corresponding fiscal and monetary policies, while not excluding the necessary administrative means, to guide public investment toward basic industries, in order to rationalize our investment structure. We could consider the following: revising our industrial policy aimed at strengthening basic industries; setting up a policy-oriented industrial development bank, in order to replace fiscal means with financial ones as our major state investment channel; further raising basic industry product and service prices; collecting a basic industry development fund from state-restricted industrial investment in order to strengthen control and guidance over local and self-funded projects

[2 Jun 93 p 1]

[Text] Faced with the current high economic growth and its accompanying inflation, what macroeconomic regulation and control approach should be adopted?

#### Investment Growth Determines the Inflation Rate

As China's current economic growth is strongly investment-induced, the experts generally regard the degree of investment growth as their key macroeconomic policy-making basis. At the end of 1992, the State Information Center (SIC) made the following three projections about 1993's inflation rate: 1) investment could continue to grow sharply, raising overall prices 10 percent; 2) investment growth might be smaller and slower, bringing overall prices rises of 7.5 percent; 3) if investment grew much less, prices would rise 6.5 percent. Which of these "options" our real economic operations would actually take depended on whether state and local governments adopted a policy of continued expansion or moderate contraction.

As our economic growth has continued to accelerate in 1993, more attention is being focused on our macroeconomic policy orientation. SIC Projection Department Director Lai Guangxian [0171 0342 6343] notes that as our fixed assets investment growth has broken through the safety line, China may experience obvious inflation in the last half or fourth quarter of 1993. He says that as our national economic operations continued to maintain high growth in the first quarter of 1993, unless we control the current fixed assets investment momentum, our national 1993 fixed assets investment scope is likely to reach 980 billion or nearly 1 trillion (yuan). Data simulation calculations show that such an investment scope will bring growth of over 12 percent to our GNP, more than 10 percent to our national retail commodity price index, higher than 34 percent to currency issue, and almost 20 percent to our loan balance, meaning that our whole national economy will operate in a state of even more shortages than in 1992. Analysis shows that we ought to keep our 1993 national fixed assets investment scope at 940 billion yuan.

#### 10 Percent: A Rational Limit?

The State Statistical Bureau (STB) recently completed its 1993 economic growth projections and rational growth quantitative recommendations. The author of these recommendations, STB General Department Director Ye Zhen [0673 7201], says that: Based on the initial analysis of our current economic cycle by Chinese and foreign experts, under normal conditions, China's economy can continue to maintain quite high growth during 1993 and 1994, and likely bottom out in 1995; whether we can avoid sharp volatility depends mainly on whether our economic operating rate in 1993 and 1994, particularly 1993, is appropriate. In light of the basic state of our economic operations in the first quarter of 1993, if this is allowed to continue, our 1993 national economy is very likely to see the following conditions: 1) A high economic growth rate. Our 1993 GDP may top 3 trillion yuan, up about 14 percent from 1992 at comparable prices, including a rise of

more than 20 percent in our GVIO. 2) High fixed assets investment growth. Our 1993 national fixed assets investment will top 1 trillion yuan, up more than 40 percent from 1992, and exceeding plans by over 200 billion yuan. 3) A high currency issue. Our 1993 currency issue will top 150 billion yuan, with loans breaking through the 450 billion yuan mark. 4) High price rises. We will see growth in 1993 of about 8 percent in our retail prices (not considering retail commerce business tax increases), approximately 10 percent in urban and rural consumer prices, and more than 20 percent in capital goods prices. 5) A clearly tighter macroeconomic climate. Our 1993 overall supply and demand gap will reach about 8 percent, higher than its normal level of 5 percent.

Ye Zhen notes that: Macroeconomic regulation and control should do its utmost to prevent such circumstances, by combining current short-term high growth with future long-term stable growth, in order to avoid sharp volatility. In light of the need to maintain a basic balance between overall supply and demand, the rational limits for 1993's economic growth are: 1) GDP growth of about 10 percent (at comparable prices); 2) GVIO growth of approximately 16 percent (at comparable prices); 3) GVAO [Gross Value of Agricultural Output] growth of around 4 percent (at comparable prices); 4) national fixed assets investment growth under 900 billion yuan; 5) overall retail commodity growth in the vicinity of 17 percent; 6) retail price rises of around 7 percent; 7) new bank loans of about 400 billion yuan; 8) currency issue at around 100 billion yuan.

#### 13 Percent: Going With the Natural Tendency?

Certain other economists believe that 1993's high economic growth is fully grounded, as many of the promotional factors in and features of 1992's high economic growth still exist in 1993. Except for railway transport, as key basic industry supply will not see severe "bottleneck" restraints, maintaining a 13-percent economic growth rate is supportable as far as transport capacity is concerned.

State Council Development Studies Center specialists note that: In assessing our current economic conditions, we must not simply compare them with past years. While our past experience shows that in light of our current growth relations of currency issue, credit scope, and investment scale to GNP, China's economy is already in an overheated state, our 14 years of reform and opening have actually brought great changes to China's economic operating forces, so that many areas are not comparable to the past.

1. The operating forces of China's national economy have already made the transition from our traditional resource-supply and "bottleneck"-sector-restraint features to a dual regulation pattern of demand-orientation and "bottleneck"-restraint, with market demand having become the key factor affecting China's economic growth. As to our situation in the first quarter of 1993, our economy is being driven mainly by the nonstate economy, whose growth is market-oriented.

2. Market forces are playing the key role in the disposition of resources, gradually replacing the basic status of planning. Market pricing accounts for 90 percent of industrial



consumer goods retail sales, 85 percent of farm by-product purchasing, and 70 percent of capital goods factory prices. So the percentage of market pricing has increased from about 50 percent five years ago to around 80 percent at present.

3. Great changes have also occurred in our key investors and capital sources. In the first quarter of 1993, local project completed investment was up 80.9 percent over the same period in 1992, or 37.6 points higher than for central projects. And our self-raised fund investments were up 92.4 percent.

So the state must and should not slam the brakes on our high economic growth, but rather should go with the natural tendency. Neither 1993 economic growth 12.8 percent higher than 1992's or industrial output growth above 20 percent are necessarily cause for alarm.

The State Council recently took several macroeconomic regulation and control steps: 1) It raised bank savings and loan interest rates; 2) It strictly examined and conscientiously inventoried all development zones; 3) It firmly curbed all high-interest investment. And it also clamped down on bank loans. It is predicted that these steps will not cause sharp economic fluctuation like past ones, but are certain to slow the economic growth rate somewhat. The height that our 1993 economic growth rate reaches will depend on how long these measures remain in effect, as well as on whether the state takes further macroeconomic regulation and control steps in the future.

#### **Readjust Industrial Structure To Promote Growth**

93CE0681A Beijing JINGJI RIBAO in Chinese  
8 Jun 93 p 7

[Article by Shen Bainian and Shen Xiaohui: "Promote Rapid Growth of the National Economy by Readjusting the Industrial Structure"]

[Text]

#### **I**

During the 14 years of efforts to implement the reform and opening to the outside world, the Chinese economy has experienced prominent progress, and the entire society has undergone historic, profound changes, thereby providing the foundation for the momentous economic development in the 1990's. The important remarks made by Comrade Xiaoping during his southern inspections early last year and the successful 14th CPC Congress have given new vigor to economic development, indicating that the Chinese economy will enter a new stage of rapid growth. Infrastructure construction and the basic industries, especially heavy industries, have once again become the leading industries in the Chinese economy. The development of those industries requires large-scale investment and construction effort, thereby contributing to the rapid growth of the economy.

In the past decade and more, we have achieved rapid economic growth and improved people's life greatly, through accelerating the development of light and textile industries and the industry producing home appliances of

the category of durable consumer goods. The current problem is that after tremendous economic development over the decade and more, China's infrastructure and basic industries are, not only in terms of quantity but also in terms of quality, increasingly inadequate to meeting the requirements of the manufacturing industry, and that the structural dislocations within the industrial sector has already been producing serious adverse effects on economic growth and economic efficiency. According to the estimates made by the agencies concerned, in recent years the state has suffered losses in output value totalling nearly 400 billion yuan and losses in profits and tax revenues totalling 50 billion yuan, because of the energy shortages resulting from insufficient railway capacities. The gap between the supply of key raw materials and the demand for key raw materials is becoming an ever serious problem. We can alleviate this problem by getting imports from the international market. But, it is unrealistic to base the development of the manufacturing industry of a large country like ours with such a large and rapidly developing economy, on the heavy and chemical industries of other countries. Obviously, if we develop infrastructure and the basic industries in a timely way and on a large scale, then there will be a firm foundation for the rapid growth of the Chinese economy in the 1990's and the next century, and we will be able to complete the modernization of the industrial structure amid rapid growth.

As we should also note, in order to further improve the living standards in China in a significant way, it is necessary to achieve further substantial development in the heavy and chemical industries. In general, China has now resolved the issue of providing the masses with food and clothing, and people are entering the stage of having a comfortable life. The main deficiency regarding their consumption does not lie in the quantity of consumer goods but in the quality of consumer goods. The way to resolve this deficiency is not to "stimulate consumption," but to upgrade industry. According to estimates based on current trends of economic development, in the 1990's, telephones, air conditioners, personal computers, finishings, motorcycles, passenger cars, and commercial housing will gradually become hot consumption items. In order to ensure fast growth in those durable consumer goods and commercial housing, highly developed heavy and chemical industries are needed to serve as the basis. Take the example of automobiles. In the 1970's, 20 percent of the steel products, 25 percent of the machine tools, over 50 percent of the rubber, 60 percent of the glass, and 90 percent of the gasoline in Japan were used by the automobile industry and its products. In the late 1990's, even if individual households are not owning cars on a widespread basis in China, just the intention of each newly established firm or large township enterprises to buy a vehicle will result in a demand for hundreds of thousands of vehicles. In order to achieve further qualitative development in the consumption on the part of urban and rural residents in the mid-1990's and late 1990's, it is necessary to achieve, first, rapid development in the heavy and chemical industries and in the transport industry.

## II

There already exist many favorable conditions for achieving, and a good opportunity to achieve, rapid economic growth in China during the 1990's.

**First, China has greatly increased its comprehensive national capabilities, and has the material and technological foundations for rapid growth.** In 1992, China's gross national product [GNP] was nearly 2,400 billion yuan and China's value of industrial output amounted to 3,300 billion yuan. And, China was one of the largest producers in the world in regard to some products bearing greatly on people's life and the state's plans. The fixed-asset investment totalling nearly 2,000 billion yuan completed during the Seventh Five-Year Plan period and the fixed-asset investment totalling 3,000 billion yuan to be completed in the next three years across the country will be transformed into effective productive force during the 1990's, thereby further increasing China's economic strength. After the several years of infrastructure development, agriculture has acquired some capacity to resist natural disasters. Except the transport industry, the "bottleneck" industries have all greatly increased their productive capacities.

Construction funds are also rather abundant. The development of heavy and chemical industries and of infrastructure requires huge investment. Every developing country would face capital-shortage difficulties during this stage of growth. Although in the last few years the people of China have greatly increased their income, the consumption level has been stable, while there have been large increases in savings for several years in a row. According to estimates, in China people's consumption accounts for around 55 percent of the GNP, a situation similar to the situation in Japan and some other countries during times of economic takeoff. The situation regarding people's consumption has created needed conditions for large-scale investment. In the 1990's, with the development of the economy and growth in people's income, savings are expected to continue to grow rather rapidly, thereby ensuring the provision of the capital needed for large-scale development.

We also have a highly trained force of scientific and technological workers and a hard-working labor force. With the talent and intelligence of the Chinese people and the policy of reform and opening to the outside world, we are fully capable of acquiring the technologies as well as the management and business techniques needed to run a modernized economy, and capable of producing the best products at the lowest costs in the world, thereby putting ourselves in an advantageous position in the competition with other countries.

**Second, the functioning mechanisms of the economy which are appropriate to a socialist market economy are being gradually established.** Over the decade and more, we have reformed the old planned economic system in a major way, and have achieved substantial progress in developing China's socialist market economy, through streamlining administration, delegating power, carrying out price reform, and reforming the income distribution system.

Presently, although there are still some problems in the economic management system, the functioning mechanisms are, on the whole, basically sound. The economic management agencies at all levels are all carrying out active efforts to review experience and explore the basic inner laws of a socialist market economy with Chinese characteristics so as to make China's economic system sounder and more scientific, thereby ensuring rapid and sustained economic development through designing the system in a certain way.

**Third, the peaceful international environment has provided a good opportunity to achieve rapid economic growth.** The dissolution of the Soviet Union marked the end of the "Cold war." Although, it will still take some time to establish a new international order, peace and development are nevertheless the main trends in the world. All this has provided a good environment in which we can concentrate on economic construction. At the same time, after a decade and more of efforts to implement the reform and opening to the outside world, the huge market potential of China with a population of over one billion is being gradually displayed. Doubtless, this has also given a good opportunity to other countries in the world. Therefore, extensive economic cooperation and exchanges are good not only for China but also for other countries. First, such cooperation and exchanges are helpful to us in our effort to introduce large amounts of capital from foreign countries, Hong Kong, and Taiwan, and to introduce advanced major equipments so as to resolve the problems of technology, equipments, and capital which we are sure to encounter in the process of developing our heavy and chemical industries. Second, because of such cooperation and exchanges, there will be an extensive market for the goods to be produced by China's manufacturing sector which will have a growing capacity. Furthermore, in the 1990's the Asia-Pacific region will be the region with the most vibrant economic growth in the world; and China and its neighboring countries will be contributing to each other's rapid economic growth.

When carrying out major adjustments of the economic structure in the 1960's and 1970's, Japan took the bold step of adopting a policy "of being tilted in favor of heavy and chemical industries," and successfully carried out economic takeoff. The ROK followed suit, and achieved sustained, rapid economic growth. We are now faced with the same opportunity. Presently, the eastern developed regions of China, as the locomotive of economic development, are playing the main part in bringing about rapid growth of the national economy. When the economic development of the coastal developed regions in the East has stabilized, transfer capital, technology and management expertise to the central and western regions, so as to stimulate the economic takeoff of the central and western regions, thereby continuing the rapid growth of the national economy. Achieve rational macroeconomic level allocation of resources through gradually bringing about economic development of the eastern, central, and western regions. Because of such growth waves occurring one after another, China will have a period of rapid growth longer than any other country.

### III

There exist many favorable conditions for achieving, and a good opportunity to achieve, rapid economic growth in China in the 1990's. In the absence of any large war or large-scale political turmoil, it is entirely possible to achieve an average economic growth rate of around 9 percent. Nevertheless, in view of the historical experiences and current conditions of China and of the experiences of other countries at times of rapid economic growth, it is necessary to do a good job of resolving the following several issues, in order to achieve sustained, steady, and rapid economic growth during the 1990's.

**First, it is necessary to pay attention to the issue of inflation.** During the 1990's, with the substantial development of the Chinese economy and the further opening up of China to the outside world, the renminbi will gradually become a convertible currency. Thus, economic fluctuations around the world will have greater impact on the development of the Chinese economy. In addition, the domestic economic structure will undergo major adjustments. Consequently, it is unavoidable that there will be inflation of some severity. However, there will be a question of degree here. If there is double-digit inflation for several years in a row, such inflation will disrupt the normal order of economic development, and be unbearable to the population, thereby adversely affecting economic and social stability. To do a good job of resolving this issue, it is, first of all, necessary to provide right consumption guidance, so as to make sure that consumption demand increases in a gentle manner. As the economy will grow at a high rate during the 1990's, the scale of investment will tend to be large. If consumption also gets overheated, and if as a result the phenomenon of expansion of both investment and consumption reoccurs, then there will inevitably occur high-rate inflation. Therefore, it is not proper to excessively stimulate consumption. Secondly, it is necessary to adhere to the policy of maintaining monetary stability. We should not only take account of the need to satisfy the monetary demand presented by rapid economic growth so as to promote economic development, but also pay great attention to maintaining monetary stability and handle well the relation between short- and long-term interests, so as to ensure sustained long-term, healthy economic development.

**Second, do a good job of resolving the issue of economic efficiency.** The issue of low economic efficiency has been a problem in China's economic development that has not been resolved in a satisfactory manner after the passing of so much time. In general, China's economic development is in the category of being based on speed-based returns. Although, China now enjoys many favorable conditions for sustaining rapid economic development, the per capita amounts of resources and output are still very small. Rapid economic growth requires a large amount of capital and abundant resources and requires that the products of enterprises should be competitive on the international market. If we continue to follow the strategy of extensive operation, it would be very difficult to make the Chinese economy climb another step. Therefore, it is necessary to

make painstaking efforts to promote structural optimization, to achieve technological progress, and to improve management, thereby achieving high growth rates on the basis of continuously improving economic efficiency.

**Third, establish an effective macroeconomic regulation and control system.** To have a socialist market economy does not mean to let things develop in an unrestricted way. While making efforts to transform enterprises' operating mechanisms and to invigorate the enterprises, we should increase our ability for macroeconomic regulation and control. It is especially necessary to do a good job of keeping a basic equilibrium regarding national aggregates. It is necessary to reform the investment system. In recent years, China's investment system has undergone profound changes. The proportion of government investment is decreasing daily. The capital needed for the large-scale construction to be carried out during the 1990's will mainly come from society. In view of all this, it becomes necessary to energetically develop direct fund-raising channels, in addition to conducting indirect fund raising. It is necessary to perfect the relevant system and proceed gradually on the basis of accumulating experience. At the same time, it is necessary speed up the effort to establish a unified national market, and to achieve rational macroeconomic level allocation of resources, so as to combine upgrading the industrial structure with giving play to the strengths of the regions, thereby preventing the rapid growth of the 1990's from bringing about such problems as each organization or region acting in accordance with its own plans, duplicate construction, and duplicate introduction of things from abroad.

**Fourth, handle well the issue of transferring surplus rural labor force.** In the last few years, large numbers of peasants from the central and western regions have been trying to find employment opportunities in the eastern developed regions, resulting in ever stronger "tides of laborers." Such circulation of labor force is conducive to resolving the labor shortages in the regions experiencing rapid economic growth, and is also helpful to combatting the excessively rapid growth in wages in those regions, thereby increasing the competitiveness of those regions' exports. It may be said that the surging tides of laborers are an overture preceding the far-reaching emancipation of the mind of the Chinese peasants, and the prelude to the economic leap forward in the central and western regions of China. The relevant agencies and organizations as well as the localities can get the laborers organized, and transfer them to the coastal regions in a planned, step-by-step manner, so as to reduce the mindlessness involved. We should also make great efforts to develop township enterprises in the central and western regions, and try as much as possible to find local solutions to the employment problem, thereby keeping control over the "tides of laborers" so that society will find the such tides tolerable, and moving toward a situation where the movement of surplus peasant labor force is under the state's macroeconomic level regulation.



## PROVINCIAL

**Liaoning Statistical Bureau Chief on Revitalizing Economy***93CE0694A Shenyang LIAONING RIBAO in Chinese  
16 Jun 93 pp 1, 3*

[Article by Liaoning Statistical Bureau Chief Zhang Benbo (1728 2609 0514): "Looking at Liaoning Dialectically"]

[Text] The slogan "Conduct a Second Pioneering Effort" and restore Liaoning's heroic style solemnly proposed by the provincial party committee and the provincial government has extremely important practical significance in stimulating the people of the entire province to restore Liaoning's economy and move Liaoning's reform and opening up and economic development up to a new higher level.

**Viewing Liaoning's Changed Economic Position Totally Objectively**

Since reform and opening up, with the acceleration of economic development in regions throughout the country, Liaoning's economic development has encountered a huge challenge, producing a sense of crisis. But soberly considering the issue, we should now look at the seriousness of the declining position of Liaoning's economy and we also should look at the overall strength of Liaoning's economy and its remaining indispensability to the entire country. The key is to increase self-confidence and do a good job of self-adjustment and recouping our strength to follow a new path to economic development.

Liaoning is an industrial base developed from the focussed investment of the state's First Five-Year Plan. Until now this has been admired by people outside the province. In the more than forty years since the founding of the country, Liaoning has made a huge contribution to national economic development. Accumulated net submissions to state financial revenue have reached more than 170 billion yuan. These funds are the equivalent of establishing two more industrial bases like Liaoning. But since reform and opening up, in the process of converting to a socialist market economy system, Liaoning has been regarded as the oldest "unitary planned economic base" in the country and its economic development has correspondingly lagged and its position in the national economy has gradually fallen back. From the perspective of the overall economy, from 1978 to 1991 it fell from third place in national income to fifth place, its total value of industrial output declined from second place to sixth place, the value of output of heavy industry fell from first place to second place, and its revenue declined from second place to fourth place. With its economic position falling back, national reliance on Liaoning has gradually weakened. In a certain sense that is understandable and inevitable in the development of the national economy and hard to avoid repeating in the future. If the rate of economic development of the vast majority of regions throughout the country still lags behind Liaoning, that would indicate that Liaoning is no longer very useful in promoting national economic development. In adjusting the strategic goals of

Liaoning's economic development, we should look at the changes in the condition of this province dialectically and we should fully evaluate our overall economic strength and foundational situation and increase our self-confidence. In analyzing the overall strength of the economy, we should first look at per capita economic totals; second, we should look at the economic technology base. As regards per capita economic totals, in 1991 Liaoning per capita gross national product reached 2,707 yuan. With the exception of the three municipalities such as Shanghai, it ranked second among provinces and regions (Guangdong was 2,823 yuan). The per capita national income was 2,194 yuan, first among provinces and regions. It still ranked first in the country in original value of fixed assets and had about 6.5 percent of the country's technical personnel, ranking second, and it led the nation in output of such major heavy industry products as steel and steel products, pig iron, electrical energy production, and soda ash. This all indicates that Liaoning's overall economic strength is still abundant and that it still plays an important role in national economic development. In evaluating the change in Liaoning's economic position, we also should maintain the perspective of seeking truth from facts; not only look at the seriousness the economic position falling back, but also based on the entire nation, looking at it from the perspective of historical development. Certainly, Liaoning's economic development is facing a series of challenges coming from such aspects as the demands of the domestic and the international markets, new and developing industries as opposed to traditional industries, new high technology as opposed to traditional technology, the rapid and sudden appearance of backward regions, and the nonstate economy as opposed to the state economy. If we only increase our confidence and deepen our awareness of our provincial characteristics, and do a good job of self-adjustment of the old industrial base and rejuvenating the foundation by developing or establishing new economic growth points in accordance with the demands of the new socialist market economy system by taking a new path to economic development, the prospects for restoring the heroic style of the old industrial base still will be bright.

**We Should Make a Specific Analysis of the Seriousness of Liaoning's Falling Economic Position**

For a long time, Liaoning has taken the path to economic development of a unitary planned economic model. So, in such aspects as its economic system and operating mechanisms and industrial structure it has had some special characteristics, including some special contradictions. Not only do we have a perceptual problem regarding these characteristics and contradictions, but we also need to deepen our specific analysis. We are in basic agreement with the views set forth in the Government Work Report regarding the long-term problems in Liaoning's present economic development, but we must make further supplementary analyses of Liaoning's economic problems. We believe that the present decline in Liaoning's economic position, a falling back in its position, and the somewhat widening gap with some coastal regions, in addition to being caused by ideological concepts, the thinking not being liberated, and the unflexible policy from a purely

economic perspective, comes mainly from being influenced and hampered by the unitary planned economy system and not doing a good job of dealing with the six economic relationships in determining goals for economic development. The first relationship is the one between the urban economy and the rural economy. This is manifest in the emphasis on the urban and neglect of the rural. We still have not placed them in the cooperative development position of advancing side by side. Especially, there is insufficient emphasis on developing township enterprises as the mainstay nonagricultural industries in the rural economy, leading to comparably slow rural economic development. Despite the fact that the provincial rural economy had extraordinary growth in 1992, it was only 32.7 percent of the province's total value of output, rather far short of Shandong (54.5 percent), Jiangsu (54.6 percent), and Guangdong (42.2 percent), and still 5.2 percentage points below the national average (37.9 percent). The second relationship is the relationship between the state economy and the nonstate economy. This is manifest in an emphasis on the state and neglect of the collective. We are unable to make up our minds about developing the state-run or the individual economies, causing us to a certain extent to lose the opportunity to promote economic development by converting mechanisms. In total value of industrial output for all industries of Liaoning, Jiangsu, Shandong, and Guangdong in 1991 for example, the value of output of state industry for Liaoning was 112.1 billion yuan, and for Jiangsu it was 104.3 billion yuan, for Shandong it was 103.9 billion yuan, and for Guangdong it was 97.4 billion yuan. Liaoning had the greatest output value. But in the value of output for such nonstate industries as collective, urban and rural individual, and other types, there was a great disparity between Liaoning and the three provinces. Liaoning was 74 billion yuan and Jiangsu, Shandong, and Guangdong were 211.7 billion yuan, 156 billion yuan, and 155 billion yuan, respectively. Liaoning was less than half each of the three provinces. In nonstate percentage of industrial value of output, Liaoning was 39.7 percent, but Jiangsu was 67 percent, Shandong was 60 percent, and Guangdong was 61.4 percent. In total profit taxes, Liaoning collective and other types of industries made up only 24.7 percent, but Jiangsu made up 45.3 percent, Shandong's made up 32.9 percent, and Guangdong's made up 38.2 percent. In fixed asset investment, Liaoning's collective and urban and rural individual investment made up 17.9 percent, but Jiangsu's was 62.1 percent, Shandong's was 46.8 percent, and Guangdong's was 32.6 percent. The third relationship is the relationship between traditional industries and new and developing industries. This is manifest in a disjointed and mutually unadapted adjustment in the technological structure and the industrial structure. For a long time, in adjusting traditional industrial structure, we have instead emphasized the resource advantage and the production advantage and have not sufficiently emphasized promoting the development of related industries, especially new high technology industries, causing the level of industrial development to be rather low. Presently province-wide technology intensive industries make up only about 5 percent of provincial industry and their output makes up about 10

percent of provincial total value of industrial output, net output value, and profit taxes. Ninety-five percent of the industrial enterprises are capital intensive or labor intensive. In the development of light industry, we are slow to anticipate changes in market consumption and have not boarded the "fast train" of product technological upgrading of some of the coastal regions. From the 1988 improvement and rectification until now, production still has not been extricated from difficulty and market coverage has constantly shrunk. The fourth relationship is the relationship between increases in fixed assets and adjustments of stocks. This is manifest in an emphasis on increases and neglect of adjustments of stocks. Sufficient attention is not paid to the two as organically integrated. From a comparison of capital construction and technological updating investment in the fixed asset investment of state units in the Sixth Five-Year Plan and the Seventh Five-Year Plan alone, in ten years capital construction investment completed made up 50.5 percent of the total and technological updating investment completed made up only 40.3 percent. Moreover, in technological updating investment, largely expansive new and extended project investment made up 35 percent and that used for investment in civil engineering construction made up approximately 50 percent or more. That used for investment in authentic technological updating only made up about 26 percent and within that that used in upgrading equipment only made up about 10 percent. The fifth relationship is the relationship between large- and medium-sized enterprises and small enterprises. This is manifest in an emphasis on the large and a neglect of the small. Because for a long time Liaoning has formed a large industry financial resource structure, the profit taxes paid by large- and medium-sized enterprises make up 65 percent or more of provincial revenue and objectively there is an emphasis on the large and a neglect of the small. As regards Liaoning's economic structure, the large- and medium-sized enterprises fully playing the mainstay role cannot be shaken and the orientation is correct. The problem is for us to pay sufficient attention to coordinating and completing the development of large- and medium-sized enterprises with the development of small enterprises, while enlivening the large- and medium-sized enterprises. Small enterprises' contribution to the economy has constantly declined. As a share of total industrial output value, small enterprises declined from 40.4 percent in 1980 to 32.3 percent in 1991. The sixth relationship is the relationship between production and circulation. This is manifest in an emphasis on production and a neglect of circulation. Because for a long time Liaoning was rather deeply influenced by the unitary planned system and state enterprise production assignments were set by the state and products were allocated by the state, thinking often remains at the product economy stage and only emphasizes production and does not give serious consideration to market commodity circulation. As far as the present is concerned, in our subjective thinking we have not grasped circulation as we have production. Such market systems as the consumer product market, the capital goods market, the money market, and the technology market still are not sound



enough, and tertiary industry still is not very developed, correspondingly restricting Liaoning's economic development.

#### Some Viewpoints on Economic Development Thinking

Based on the analysis given above, we believe that restoring Liaoning's heroic style is not duplicating old features, but enhancing new structures. Concrete implementation of provincial economic development thinking in the present and future stages should pay attention to the following three issues: The first is that with the guiding thought of economic development, we should pay attention to adhering to the principles of seeking truth from facts, acting in accordance with our capabilities, and steadily advancing. We should not simply compare our relative position and our speed with outside provinces and cities, but we should begin from Liaoning's objective situation and increase our sense of urgency about the development of our situation and we should guard against being impatient for success and big highs and lows in the economy. Especially as we move into the new socialist market economy system situation, we must come to an even clearer understanding of all aspects of economic activities and more adequately evaluate favorable conditions and unfavorable factors and strive to make the focal points stand out and set goals and see results. At the same time, we must conscientiously do a good job of overall balancing and do a good job of handling several major proportional relationships in the national economy. The second issue is that in economic development goals we must persist in concentrating on improved economic performance and pay attention to integrating the rate of economic growth with economic performance and guard against one-sided pursuit of output value, making output value the hero and overlooking economic performance trends, and strive to take the path of small input and large output and low consumption and high results. In 1992 the rate of growth of the provincial value of industrial output was a relatively high (18.9 percent), but it still did not make a fundamental improvement in converting overall economic performance. The composite index of industrial economic performance was only 82.1 percent, 6.9 percentage points lower than the national average, and there still was not a very great improvement in such economic performance indicators as the rate of the net value of industrial output, the profit tax rate on the value of output, the sales profit tax rate, the capital profit tax rate, the cost profit ratio, and the capital circulation turnover frequency. The use of "three kinds of funds" comes to as high as 57.1 billion yuan and makes up 46 percent of the total funds in circulation, an increase of 18.5 percent over the previous year. This high rate of use and high input and low output exchange performance is unacceptable. The third issue is that we should emphasize and utilize the advantages that we currently have as determined by the characteristics of our province and we should seek new points of economic growth. The key is to do a good job of handling adjustment and developmental relations. As far as adjustment is concerned, the key is to center on breaking the closed circuit of the internally oriented industrial structure and, in accordance with large socialized production and the

demands of the socialist market economy as well as the principle of common enjoyment of benefits, and division of labor and cooperation, increase economic and technical exchanges within the country and outside and within the province and outside, and promote coordinated development among various industries. In adjusting the industrial structure, the key is in adjusting excellent current fixed assets. On the one hand, we should introduce technology and using foreign funds as well as use new high technology and high starting points to update the technology of traditional industries. On the other hand, we should increase efforts to adjust the structure of business organizations to realize the goal of economies of scale. As far as development is concerned, we should seek new economic growth points.

First, we should make a great effort to cultivate nonstate economic development. The nonstate economy has been a "shortcoming" of Liaoning's economic development for several years and a major factor causing Liaoning's economic position to fall back. Between 1985 and 1991, new increases in the output value of state industries in the four provinces of Liaoning, Jiangsu, Shandong, and Guangdong were all between 59 billion yuan and 64 billion yuan, on a par with one another. But nonstate industry opened a big gap. Liaoning's new increases in output value were only 49 billion yuan and the other three provinces' new increases in output value were all 120 billion yuan or more. Making a further comparison with Shandong Province that has provincial characteristics rather close to Liaoning's, in 1985 Liaoning's and Shandong's level of industrial development were roughly equal, with Shandong still lower than Liaoning by 9.2 billion yuan. In 1991, however, Shandong exceeded Liaoning by 73.9 billion yuan. Liaoning's state industry in 1991 was still higher than Shandong's by 8.2 billion yuan, but nonstate industry fell by 4.2 billion yuan from 1985 and in 1991 the gap reached 82.1 billion yuan. In the same period, the value of output of Shandong's nonstate industry increased by 450 percent and Liaoning's only increased by 200 percent. Fixed asset investment was also this way. Liaoning's absolute amount and rate of increase of state investment were both at the same level as Shandong's, but nonstate investment was far behind Shandong's. In 1991 Liaoning's nonstate investment was only 5.7 billion yuan and Shandong's was 20.6 billion yuan, more than 2.6 times Liaoning's. Compared with 1985, Liaoning's nonstate investment increased by 80 percent, but Shandong's increased by 120 percent. The above comparison shows that the capacity and potential of Liaoning's nonstate economic development is exceedingly great. Why do we say that we must cultivate development? The implication is that in enhancing macroeconomic control and policy slants we should get a good grasp on developmental forces to avoid springing up all over the place and blind development. We believe that in implementing the policy to develop the nonstate economy, we should adhere to the principle of "active support, reasonable planning, correct guidance, and augmented administration" and, starting from reality and suiting measures to local conditions, the key points of development should be placed on products that complement big industry, develop



and use new high technology, and earn foreign exchange from export as well as serve the people's livelihood. There should be strategic emphasis on development of rural enterprises as the only way to restore Liaoning's economy, expand financial resources, and make the rural economy prosper. We should accelerate the cultivation of development, but we should pay attention to increasing categorical guidance, and we should actively support enterprises that conform to industrial policy and have good economic performance. We should conscientiously make the necessary adjustments in enterprises that have low product quality and high consumption, and are lacking in performance and are heavy polluters. In localities that are weak in township enterprise development, we should have planned development in accordance with the principle that materials have their sources, products have their markets, and social benefits are good. In localities that have a solid base for township enterprise development, we should concentrate on enhanced administration and updating of technology and expand the production of marketable products and do a good job of updating products to avoid another impact on the changing economic situation.

Second, we should give the development of tertiary industry a free hand and increase the development of market systems and service systems. Liaoning's economic strength is still rather formidable, but the problems that are currently reflected are principally the aging of the economic structure, single function, and unsound market development. So, accelerated development of tertiary industry is presently extremely important. The present development of tertiary industry should be in accordance with the demands of the socialist market economy, stress the main points, and move forward in steps, and the developmental emphasis should be placed on the circulation industry. That is, on the wholesale and warehousing industry for capital goods and means of subsistence. In the hardware environment, we should increase the development of the transportation industry and in the service provider system area we should accelerate the cultivation of the finance and insurance industries. At the same time, we should complete market development in such areas as talent, technology, consultation, and real estate, and the standardization and legalization of market operations.

Third, we should launch new products and accelerate the rate of new high technology development and the development of new high technology industries. Presently we should concentrate on three aspects of accelerated development. In one respect, we should have scientific and technical units, technical institutes and universities, and large- and medium-sized enterprises take the lead in accelerating scientific and technical research and development and opening channels so that new technology can be rapidly converted to productive forces. In another respect, by introducing high starting point technology and digesting and absorbing it, closely integrated with restructuring traditional industries, we should improve the technical content of the output. And in another respect, we should accelerate the development of new high technology parks and implement a preferential policy for economic and technical development regions to attract domestic and

foreign joint initiation and development of every economic component. Using accelerated development of new high technology and the development of new high technology industries in these three respects will improve the technical level of Liaoning's material base.

## FINANCE, BANKING

### Securities Commission Chairman on Stock Market Risk, Management

93CE0565A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 4, 23 Apr 93 pp 10-17

[Article by Liu Hongru (0491 7703 0320), chairman, the Securities Supervision and Control Commission of China: "The Stock Market: Risks and Management"]

[Text] [Editor's Note] As all things in the world have, without exception, a dual character, the share system and stock market are also a double-edged sword. Used properly, they can spur the economy to develop rationally and rapidly. Otherwise, they can also bring painful consequences to the economy and society as a whole. [end of editor's note]

*The following article objectively reviews the experience and lessons of some worldwide stock disasters and, in the light of China's special conditions, scientifically expounds the direction for the development of its share system and stock market. The article is based on a great deal of investigation and study of both positive and negative experiences at home and abroad by the writer in recent years. The questions raised in the article are extremely important, to the point, and incisively discussed. Readers are urged to study it seriously.*

The positive role of China's share system and stock market, now being experimented, in facilitating lending and borrowing, changing the business management system, and readjusting the economic structure has become increasingly obvious. Facts have also shown that this is a really effective way to consolidate and develop a socialist economy with public ownership playing the dominating role. The experiment must be continued. However, international experience also tells us that the stock market is very risky. Like a double-edged sword, it plays a positive role in spurring economic development, but can also have an adverse impact on the economy. In serious cases, it may cause major disturbances, even create social problems, and affect social stability. We must seriously sum up the experiences and lessons of international stock disasters, learn from the good experiences and methods of other countries in dealing with risks and strengthening management, and in the light of China's realities find the way for the healthy development of the stock market under the socialist system.

### Experiences and Lessons of World Stock Disasters

Looking back in history, rudimentary forms of securities markets appeared in certain European and American countries with well-developed credit economic relations at the turn of the 17th and 18th centuries. The first English exchange was formed on the basis of informal trading at

the Jonathan Cafe in London in 1773. The Philadelphia exchange, the first in America, was born 17 years later in 1790. In the past 220 years and more, securities markets have developed very fast. First bonds and debentures, then stocks, the volumes issued and traded have increased rapidly. And, as stock trading grows, stock disasters also take place from time to time.

—*World economic crisis inevitably brings world stock disaster.* The first major stock disaster occurred in 1929-1933. In the 10 years from World War I to 1929, the United States per capita gross national product increased 53 percent, rising to first place among the world's economic powers. At that time, there were no sound laws and regulations governing the stock markets and no powerful organizations to control them in the United States, Great Britain, and other countries. There were, instead, rampant speculation and a lot of market manipulation, fraud, and credit transactions, and stock prices skyrocketed. In 1929, the Dow-Jones index of 30 industrial stocks reached a record high of 452 points, but on 28 October began to fall precipitously. In October and November that year, the index of industrial stocks dropped 36 percent, causing a total loss of \$26 billion. In the year between 1929 and 1930, the index of industrial stocks dropped 89 percent. Because of the mutual economic infiltration and ties in the world, the stock disaster in the United States also spread to other economically developed countries.

—*When bubbles occur in the economy, stock prices are bound to fluctuate violently, leading to stock disasters.* After the first world economic crisis and stock disaster, the stock markets in capitalist countries went through countless major and minor fluctuations, and the second world stock disaster erupted in October 1987.

On Monday, 19 October 1987, the U.S. New York Stock Exchange went into a spell of panic selling, and stock prices plummeted. The Dow-Jones index of industrial stocks fell 508 points, or 23 percent, in a single day, far exceeding any one-day fall when the stock market collapsed in October 1929. It is called "Black Monday." In a few short hours, more than \$500 billion in stock value evaporated like burst soap bubbles. The fear of collapsing stock markets quickly spread, and stock prices plummeted in stock markets all over the world.

The 1987 world stock disaster was caused by a series of complex factors. First, the stock markets in the Western countries had been growing steadily for a very long period of time. In the United States, between 1982 and 1987, the Dow-Jones index rose 250 percent, while the GNP increased only 20 percent. In comparison with economic growth, the stock market was like a heap of huge bubbles, concealing the real growth of the economy and presenting a picture of false prosperity, or a bubble economy. At the same time, the long-running bull market gave people an optimism and illusion and made them feel, when looking at the stock market, that it was normal and that if they invest in stock they would make money. This illusion increased the expansion of the economic bubbles. Second, since the mid-1980's, a large number of institutional

investors, such as pension funds, insurance companies, investment funds, and so forth, joined in stock market activities and caused the markets to expand. With the widespread application of computers and modern communications technology, a global market running at high speed almost nonstop around the clock came into being, which at the same time also provided the foundation and condition for the outbreak and swift spreading of a worldwide stock disaster. Third, since the 1980's, the developed countries pursued a laissez-faire financial policy and an expansionary currency policy, which resulted in a great deal of money in the markets and at the same time made it possible for large scale international capital circulation. A considerable part of the money flowed into the high-profit stock markets. Many speculators borrowed money to buy and sell stocks in a big way, stirred up waves, and pushed the stock market skyward. In this setting, the bubble economy expanded further.

—*Violent fluctuation of stock prices is apt to occur in the developing countries and areas, where securities markets are just beginning to develop with no sound laws and regulations, and where speculation is rampant, the market is manipulated by big players, and stock owners have very little sense of risk.* In Taiwan, four stock disasters occurred between 1963, when the first securities exchange was established, and 1983. In one instance, because of plummeting stock prices, the masses surrounded the "Ministry of Economic Affairs," and the authorities were forced to buy back the stocks issued by enterprises.

Since 1986, Taiwan has maintained a huge trade surplus, revalued upward the new Taiwan dollar, and relaxed foreign exchange control. With large sums of money pouring in from abroad, and also influenced by the soaring New York and Tokyo stock markets, stock prices in Taiwan rose sharply, and the stock market went into an unprecedented frenzied state. On 10 February 1990, the Taipei Securities Exchange combined stock price index reached an all time high of 12495 points. To stabilize the stock market, the Taiwan authorities intervened with coercive administrative measures, which caused the stock market to collapse for the fourth time. By 1 October 1990, the index fell to 2564.7 points, a 79.5 percent drop.

The important reasons for the wild rise of Taiwan stock prices are: First, Taiwan's economy grew rapidly in the 1980's. Second, the supply of stocks fell short of demand. Not many companies are listed, and of the stocks on the market only 20 to 40 percent are held by the general public, the rest being held by the government and private families. Third, supervision and control of securities companies are lax. The number of securities companies increased from 28 in 1987 to 373 in 1990. With so many securities companies competing blindly, stock prices are pushed upward, and about 40 percent of the deals are controlled by illegal underground investment companies. Fourth, too many investors, about 95 percent, are individuals who have no investment experience, blindly follow the big players in buying and selling, tend to believe in rumors, and are often fooled and cheated.

A regional stock disaster also occurred in Hong Kong in 1973. Stock prices began to fall in March and continued falling for more than a year. During 1973 and 1974, most stocks fell below par value.

Besides Taiwan and Hong Kong, similar stock market violent fluctuations have also occurred in Korea and Indonesia.

Stock disasters brought shocks to the economy, hampered the development of the stock markets, but at the same time also enabled the people to gain experience and draw lessons. To avoid recurrence of stock disasters, some countries and areas have tried their best to objectively analyze the cause of each stock disaster and study and improve the management system and market operation mechanism.

—*Enactment and perfection of laws and regulations.* At the time when the 1929-1933 stock disaster struck, there was virtually no law and regulation governing the stock market in the United States. As a result, the stock market was fraught with swindling and manipulative activities. Therefore, when President Roosevelt took office, he quickly began to overhaul the stock market and adopted certain reformatory measures. The first step was to enact laws and regulations governing securities. Since then, a fairly complete system of market laws and regulations has been formed in the United States. So far, there are six major U.S. laws governing the securities market: the "1933 Securities Law," "1934 Securities Trade Law," "1935 Public Utilities Stockholder Company Law," "1939 Trust and Contract Law," "1940 Investment Company Law," and "1940 Investment Advisory Law." The sole purpose of these laws is to protect the investors' interests by setting a standard for the behavior of market participants and insuring the stable development of the market.

After the stock disaster, Hong Kong enacted the "Securities Regulations" and "Regulations for the Protection of Investors" in 1974 and the "Regulations Governing the Buy-out and Merger of Companies" in 1975.

Drawing lessons from the stock disasters of others in developing their own stock markets, many countries and areas have established their own system of laws and regulations. Generally these systems of law and regulations have one principal "securities law" or "securities trade law" as the basis with special laws and regulations enacted to complement the incompleteness or lack of detail of the principal law. Below the laws and regulations are specific administrative regulations and rules for implementation. On the basis of these laws and regulations, the securities exchanges and securities trade associations formulate their own self-discipline management rules. In this way, a complete and level-by-level system of laws and regulations governing the securities market is formed, laying the foundation for the sound development of the securities market.

—*Establishment and strengthening of a supervisory and controlling body.* The lessons of the stock disasters have shown that the sound development of the securities

market requires a special supervisory and controlling body to exercise unified control over the market, enforce laws and regulations, and discover and solve problems in good time. Therefore, the second step taken in the United States and other Western countries after the stock disaster of the 1930's was to establish special supervisory and controlling bodies for securities and their trading.

The supervisory and controlling systems in various countries and areas of the world seem to fall into roughly two types. One type is special supervisory and controlling bodies set up by governments, as those in the United States, South Korea, Japan, Hong Kong, Singapore, Thailand, France, Taiwan, and other countries and areas. The other type is not special supervisory and controlling bodies set up by governments, but self-discipline and control systems organized by the securities markets themselves, as in Britain and other European countries. It seems that the importance in setting up a centralized, unified, and authoritative body is being recognized by more and more countries and areas. The establishment of such an independent supervisory and controlling body with centralized authority is the trend in stock market supervision and control and an important measure for the improvement of the markets.

—*Guarantee of the quality of listed enterprises.* Specific requirements enterprises must meet to be listed in the stock market differ from country to country. In the United States, the stock exchanges require enterprises applying for membership to meet a series of strict conditions, in addition to considering the nature of their business, the market of their products, and the reputation of their management. Generally similar conditions are also required of listed companies by securities exchanges in other countries and areas. In Taiwan, besides standard stock market listing requirements, there are also minimum conditions for issuing stocks.

In short, the quality of the listed companies must be assured, which is an important part of preventing stock disasters, as shown in the early stage of the development of stock markets in the capitalist countries.

—*Strengthening control of securities dealers.* As an intermediary between investors, the stock exchange, listed companies, and competent government departments, the securities dealers occupy a special position, and failure to keep them under control will lead to serious damages to the stock market. In 1991, when the scandal of the fraudulent practices of Japan's four major securities companies was exposed, it immediately sent the stock market into a nose-dive. In Taiwan's stock disaster, an important lesson is that the securities dealers grew too fast.

For the control of the securities dealers, all the countries and areas have specific requirements according to their own different conditions. There are many ways to punish the securities dealers for illegal activities, including warning, fine, short-term suspension, revocation of



license, ordering the exchange to cancel their membership, criminal investigation and prosecution, and so forth.

Keeping the securities dealers under control is a complicated and painstaking job, for which all the countries and areas have very specific rules and regulations. With the occurrence of market fluctuations and stock disasters, all the countries and areas have constantly revised and improved their laws and regulations for controlling the securities dealers. These actions have had a positive impact on stabilizing the stock market and preventing stock disasters.

—*Strengthening the role of the intermediary service organizations in society.* Besides the securities dealers, the intermediary service organizations in society also include the offices of accountants, lawyers, asset appraisers, and so forth, whose independent audits and appraisals conducted according to relevant laws and regulations serve as effective outside supervision of companies and make it possible for investors to invest in securities with confidence. Some people figuratively call them the government's unpaid "economic police."

Lawyers take part in a wide range of activities of the securities market. Generally they help companies prepare the prospectus and other registration papers, examine the legality of relevant documents, and offer opinions on stock issues, payment for shares, shareholders' limited liabilities, and other legal matters. Lawyers must also check the wording of reports to make sure there is no misrepresentation or misinformation. The job of accountants in the securities business is to audit the books of companies which have issued stocks or are listed in the stock market and to check the truthfulness and accuracy of the financial indicators and business performance of enterprises. The asset appraisal organizations appraise the value of the assets of enterprises accurately and reasonably according to government-prescribed standards, and will be held to account for false appraisals in violation of prescribed standards.

In fact, the countries with well-developed markets have already formed their complete intermediary service system and mechanism. The developing countries and areas, where markets are being nurtured, are paying more and more attention to improving the intermediary service mechanism and bringing its role in supervising the securities market from the outside into full play step by step.

—*Measures to improve stock market operations.* Stock disasters are caused by both institutional and operational problems. After summing up the lessons from past experiences, countries and areas have taken operational measures to prevent stock disasters. These measures are all designed to strengthen stock market management. Major measures include those to strengthen legislation, and minor ones include market operation procedures. Although the measures are numerous and complicated, the countries have all proceeded from realities and applied them in a systematic way, which has produced a positive impact on the subsequent development of their

stock markets, and is worth to be studied and used for reference by other countries with newly developing stock markets.

### Characteristics of China's Stock Markets

China's stock markets have been developing for nearly 10 years, since the Shanghai Fei Yue Acoustics Company issued stock to the public in a relatively standard way in 1984. A certain foundation has been built for stock markets, a market structure is taking shape, and a mechanism for raising capital through the stock market is being formed.

While China's stock markets are developing vigorously, we must also see that like other stock markets in the world, China's stock markets can bring both great benefits and great risks. Similarly there are in China's economy also abnormal factors tending to create a "bubble economy." In China's stock markets, there can also be gambling speculation, manipulation by a few persons, inside trading, favoritism and fraudulent practices, and other problems, and there are also many investors who know little about investment in stocks, have no sense of risk, and blindly follow the big players. Stock prices have fluctuated rather violently in Shanghai and Shenzhen. All these are associated problems unavoidable in the course of stock market development. It is necessary for us to learn from the experiences and lessons of the international stock disasters, guard against similar problems, and deal with them seriously if they do occur.

While following international practices, China's developing stock markets should also have their own characteristics, which are determined by China's special conditions.

First, in the course of stock market development, we should properly handle three issues: 1) Public ownership should remain the dominating factor, and the development of stock markets should contribute to the development of the public-owned economy. 2) On the basis of adhering to the principle of distribution according to work, some people can be allowed and encouraged to get rich before others, but our basic policy is to take the road of common prosperity. 3) We should prevent problems affecting social order from occurring in the stock market. We should be vigilantly on guard against such problems.

Second, the capacity of the Chinese public to endure shocks from the stock market is rather limited. It is undoubtedly necessary to educate the people about investment in securities and make them understand theoretically that there are both profits and risks in the stock market. It is more effective for people to directly or indirectly participate in stock market activities and through experience gradually develop and increase a tolerance to stock market fluctuations.

Third, China is a big country, economic development is uneven, and people's idea of a commodity economy also differs considerably from region to region. In the development of stock markets, it is indeed necessary for markets to be developed earlier and faster in some places and later and slower in others. The policy we have followed in the

past two years is to set up stock markets first in Shanghai and Shenzhen on an experimental basis, to gain experience and then spread to the entire country step by step. How to build a unified nationwide market, while giving full consideration to the wishes and interests of different regions and departments, and at the same time not to follow the beaten track of others in market structure and organizational form, but to establish a modern market system from a high starting point is a question for which we must keep trying to find answers.

Fourth, China's markets are still in a rather rudimentary stage of development, and the conditions of a market economy necessary for further development of the stock market are not all available. After more than 10 years of the reform of the price system, 80 percent of goods have been taken out of price control. However, the prices for basic industries such as energy, transport, raw and semi-finished materials, etc., which are of vital importance to the national economy as a whole, are still set far too low with rather widespread consequences. This problem is reflected on the stock market: The profits and stock prices of some listed companies may not fully reflect their real operational and financial situation. Possibly because of the irrational price system, some enterprises have unreasonable prices and low profit and cannot issue stocks to the public.

Fifth, after many years of reform, China's state enterprises have been given some decision-making power on their own operations. However, the problem of direct government intervention in the enterprises' production and operation and excessive government protection of some enterprises under the present system has not been really solved; the enterprises have not become fully market-oriented; and the government's functions have not changed very much. Moreover, it takes time to change the way enterprises operate and the cadres' thinking and habit which took many years to form in the first place. All this makes it more difficult for the state enterprises to adopt the stock system and be organized and operated as stock enterprises. Under the circumstance, it is also difficult for different enterprises to compete on equal terms and let the market be the judge of their performance.

Sixth, China began to set up securities markets, stock markets in particular, only recently with no experience and few competent people, and laws and regulations cannot be enacted overnight, which also makes the work more difficult.

In short, the establishment of socialist stock markets is a very important reform in China. But, it is difficult, risky, and must be experimented, popularized step by step, and developed steadily. At present, it is still in the experimental stage. Like building a railroad, it is necessary to first open up the wasteland, build the roadbed, and lay the tracks. It is impossible to run an express train before the roadbed is built and tracks laid.

#### Direction of China's Stock Market Development

Carrying out experiments unswervingly on stock markets is an important link in building a socialist market economic system. The 14th Party Congress set forth the policy

to "actively cultivate a financial market, including bonds, stocks, and other securities." The question now is how to do a good job in the experiment on socialist stock markets so that they will be perfected gradually, popularized step by step, and developed healthily. To proceed from China's realities and make use of foreign experience, the following important questions must be made clear and handled correctly.

—Two relationships must be properly handled in the financing business in China: One is the relationship between indirect financing (through loans from the financial institutions), which should play the main role, and direct financing (through the securities market), which should play a supplementary role. The other is, in the securities market, the relationship between bonds, which should play the main role, and stocks, which should play a supplementary role. These two principles, which we have followed persistently in financial reform for more than 10 years, are in keeping with China's conditions and undoubtedly correct. Judging by practical experience and the changing situation, it is necessary to increase the supplementary role of the securities market and stocks proportionally and accelerate the development of the securities market, particularly the stock market. Of course, the development must be properly controlled so that it will not adversely affect the overall economic regulation and control.

—Persist in maintaining the dominating position of socialist public ownership and make sure that the value of state-owned assets is protected against inflation and keeps growing. The experiment on the share system should not include enterprises involved in national security and sophisticated defense technology, projects for the mining of rare metals of strategic importance, and trades and enterprises which must be monopolized by the state. They should continue to operate as state enterprises. In the process of introducing the share system on an experimental basis to enterprises in the energy, transport, telecommunications, and other fields, which are monopolies in nature and given high priority for development by state industrial policy, it is imperative to keep the shares representing state-owned assets in controlling proportion. At the same time, it has been ruled that a natural person should not own more than 0.5 percent of the stock of any enterprise. These provisions fundamentally guarantee the leading role of public ownership in the national economy. The question which needs to be further studied now is how to give expression to the dominating role of public-owned stocks in concrete terms. Public-owned stocks are not allowed to be traded on the market. The reason was to prevent public-owned stocks from being weakened. But in fact the restriction is preventing public-owned stocks from higher yields and not conducive to market stability and development. This problem needs to be studied and solved.

—*The share system of enterprises must be standardized, and strict requirements must be met for stocks to be issued to the public and traded on the market. This is the cornerstone for the healthy development of the stock market. We must strive to do a good job in reforming the enterprises and introducing the share system in accordance with the "Procedures for the Introduction of the Share System for Enterprises on a Trial Basis" and other standard documents published by departments of the state concerned. Only when conditions are ripe in an enterprise will it be allowed to issue stock and put its stock on the market. We must not blindly pursue numbers at the expense of quality. Enterprise assets must be truthfully appraised, and property rights must be clearly defined. The accounting system of enterprises should be reformed according to the accounting system of the share system. In establishing and perfecting the internal enterprise management system and the system of shareholders meeting, the board of directors, and the board of supervisors, it is necessary to follow the standardization requirements in their organization in order to really change the enterprises' operational mechanism and increase their ability to control themselves. What merits attention is that with China opening wider to the outside world and enterprises moving into the international market, the reform of enterprises into stock companies must follow international standards. In the current reorganization of state enterprises into stock companies, three problems must be solved: The first is to establish a stock company management system and put an end to the situation in which an enterprise is run like a community and there is no distinction between government administration and enterprise management. The second is to reappraise the assets of enterprises and straighten out the discrepancies between the books and the truths and the confusion about assets. The third is to change the accounting system so that there will be no more cost and profit entries that are not true and profits that are really loss. This is a most basic task and must be done properly.*

—*The stock market must keep the public well informed of everything from stock issues to trading, and adhere to the principle of "openness, fairness, and impartiality" to protect the interests of investors and guard against favoritism, fraudulence, and other corrupt phenomena. First, all information, including performance of enterprises, market situation, and supervisory and legal requirements, must be made fully known to the public. This is the foundation on which the stock market relies for existence and efficient operation. Second, it is necessary to keep the public better informed on stock issues. On new stock issues, subscription forms should be provided on demand with no limit; the percentage of winners should not be revealed; a fee is charged only to cover cost; and everything should be made known completely to the public to prevent the phenomenon of long lines of people jostling to get subscription forms and causing a public disturbance from ever occurring again. On stock trading, it is necessary to strengthen supervision and*

*control, prevent inside trading, guard against manipulation by a few persons, and insure that trading on the market is conducted fairly and efficiently. Here the most important thing is for the government not to directly interfere in the operation of the market. Stock prices are determined by many factors and changes according to the law of the market. The supervisory department should only exercise control according to law. Some people have suggested to set up a "stabilization fund" for "market control," and that is not advisable. No country in the world has done so. Some countries have adopted measures to interfere in the stock market, but are unsuccessful. What the government should do is to rationalize the market mechanism to the extent possible from the angle of laws and regulations.*

—*Scientifically apply the macroeconomic policies as a means to stimulate the development of the stock market. On tax policies, it is necessary to strengthen the collection and management of personal income tax. On financial policies, it is imperative to adhere to the principle of separating the securities business and the banking industry and strengthen control over the securities dealers. There are now in China more than 70 securities companies and more than 300 banking institutions dealing in securities. The extent to which they observe law and discipline and the standard of their management and operation have a direct bearing on the reputation and success of the stock market. There are three problems to be solved here. First, they should not develop blindly and exceed the market's need. Second, they should compete on equal terms and should not artificially use monopoly methods, such as setting up unequal business organizations, attracting clients with bank loans, etc., to engage in unequal competition. Third, securities dealers must strictly control their own operations and must not rely on bank loans to blindly expand their business, causing money supply to get out of control and bubbles on the stock market. We should make a great effort to cultivate a number of high-standard securities dealerships, improve the professional quality of those engaged in the securities business, and especially strengthen their education on professional ethics. It is necessary to enact strict rules and regulations governing all aspects of the business of the securities markets, so that the securities dealers will have rules to follow and laws to abide by in their business activities.*

—*Actively develop institutional investors and increase the stability of the market. In China's stock markets today, most of the investors are individuals, who are relatively weak in their sense of risk and ability to accept losses. And they are liable to be influenced by rumors and blindly follow others in buying and selling, causing the market to fluctuate and themselves to lose money. With the continuing expansion of the stock markets, the development of institutional investors has become an extremely important matter. At present, we are in the process of reforming the social security system, and we should allow the various kinds of insurance funds to go to the stock markets and make long-term investments.*



At the same time, we should vigorously develop the cooperative funds and let professionals do the investing for the large number of middle and small investors, thus reducing the risks faced by individual investors and helping them make money as a group. The establishment of such institutions and their investments are of especially great significance in China. By getting organized, the individuals become a legal person, and investments by the legal person are no longer individual investments, which is conducive to implementing the principle of the dominating role of public ownership and can speed up the development of the share system and the stock market. At the same time, investment through the funds is an effective way to wage a struggle against the improper activities of the big ones who manipulate the markets, restrict gambling speculation, and turn short-term investments into long-term investments. At present, it is not suitable to develop closed funds. Instead, it is best to develop open funds which, allowing free entry and withdrawal and securities to be transferred outside the market, are safer and more reliable.

—*Set up special supervision and control organs and improve the securities market supervision and control system.* As a guiding principle, it should be made clear that in establishing a market system, especially a securities market system, the government must strengthen supervision and control, because it concerns the interests of the broad masses and also has a rather strongly speculative nature. However, strengthening supervision and control does not mean direct government intervention in market operation. The government should pay attention mainly to two things. On the one hand, it is necessary to strengthen laws and regulations, strictly enforce them, and exercise control according to law. There should be a change in concept. The question is not who says that counts, but what the law and regulation have to say. The question is not who has the power to examine and approve, but whoever approves or disapproves must act strictly according to laws and regulations and procedures. On the other hand, it is necessary to establish social supervision and control organs. After learning lessons from stock disasters, many countries and areas have set up strong supervision and control organs. China's State Council Securities Commission (Securities Commission for short) is the state organ in charge of the unified macro management of the securities markets. It is responsible for the enactment and formulation of relevant laws and regulations, general and specific policies, development programs, and yearly plans; directs, coordinates, supervises, and inspects related work; and is in direct control of the Securities Supervision and Control Commission (Securities Supervision Commission for short). The Securities Supervision Commission is the Securities Commission's enforcement organ for the supervision and control of the securities markets. It is composed of experts with specialized knowledge and practical experience about securities, and is specifically responsible for the supervision and control of the securities markets, including supervision and control of the securities dealers, exchanges,

stock issues and listings, and intermediary organizations participating in the business of securities markets such as accounting firms and lawyers.

In the light of the specific characteristics of the securities markets, particularly the stock markets, it is necessary to build the securities associations into real self-discipline organizations and strengthen the self-management and supervision of the securities dealers. It is especially necessary to give full play to the role of the accounting firms, lawyers' offices, etc., as nongovernment "economic police" to strengthen social supervision. It is also necessary to give full play to the role of the securities exchanges to strengthen supervision and control of the listed companies, exchange members, and trading process. In short, while strengthening government supervision and control of the stock markets, it is also necessary to bring the role of the market mechanism into play, so that a securities market supervision and control system can be built with responsible government agencies, self-discipline organizations of securities dealers, and intermediary organizations, each assuming specific responsibilities at different levels, while coordinating and cooperating with one another.

—*Using the stock market to attract foreign capital is a flexible and effective way to bring in foreign funds.* The study on how to attract foreign capital and actively broaden the channels for foreign funds to flow in has always been an important task since the beginning of the reform and opening to the outside world. In the early period of opening to the outside world, the main way to attract foreign capital was to encourage foreign firms to invest directly in the three kinds of partially or wholly foreign-owned enterprises, and the issuing of stocks was not yet considered at that time. With the rise of securities markets in China, particularly the stock markets, foreign businesses have shown great interest in investing in Chinese enterprises by buying stocks, and the question of attracting foreign capital through issuing stocks has thus been put on the agenda. It can be seen by comparison that it is more flexible for foreign businesses to buy stocks than to make direct investment. Through buying or selling stocks, foreign investors can choose their investment orientation and obtain greater returns. For this reason, in 1991 China began an experiment on B stocks, which are available only to people from the outside world and managed separately from the domestic stock markets where deals are made in renminbi. This is a transitional program designed under the circumstances that foreign exchange is controlled in China and that there is a rather big difference between China's domestic and overseas economic management systems. The experiment is basically successful. At the same time, we have also considered to let Chinese enterprises put their stocks directly on markets overseas. The advantage in letting Chinese enterprises put stocks directly on overseas markets is that they will make a greater impact, as any investors can invest in these stocks, and the fund-raising potential is greater. We can also learn from the advanced management experience of foreign securities markets, which will be helpful to improving management of domestic securities markets.

At present, our consideration is mainly to put stocks on the market in Hong Kong, and other places may be considered in the future. However, this does not mean that we want to put most enterprises on overseas markets, nor are we going to stop or weaken the experiment on the B stock market. Proceeding from the development of China's securities markets as a whole, as a great number of enterprises will still be on the domestic markets, the development and perfection of the domestic long-term capital markets will remain our major task in opening and developing the securities markets.

#### **It Is Imperative To Strengthen Legislation and Standardization.**

As stocks will be issued publicly throughout the country in an extended experiment this year, the work and tasks in the operation of the stock markets will be very arduous.

1. *Strengthen legislation and put relevant laws and regulations into effect.* The "Interim Regulations Governing Stock Issuing and Trading," after being discussed and revised for dozens of times, has been adopted in principle at a plenary session of the Securities Commission and, with some more minor changes, will be put into effect immediately. From now on, stock issuing and trading should all be conducted according to the regulations. Because this regulations deals mainly with stocks, it is still a special regulations and needs to be supplemented by other provisions. At present, attention is being focused on the drafting of the "Provisions on the Management of Securities Exchanges," "Procedures for the Prevention of Inside Trading and Securities Fraud," "Provisions on the Management of State-owned Stocks," "Code of Conduct for Persons in the Securities Trade," "Procedures Governing the Issuing of Stocks on Markets Abroad by Enterprises at Home," and other relevant rules and regulations in order to improve to the extent possible the system of laws and regulations for the securities markets.

2. *Strive to do a good job in this year's experiment on the issuing of new stocks.* A large number of new stocks will be issued to more places this year. Many places still lack the experience in the issuing of stocks, but stock markets are hot, and the people are eager to buy stocks. Therefore, successfully completing the issuing of new stocks is of great significance. The Securities Commission held a meeting on the procedures for the new stock issuing project in Beijing on 4 March this year, at which work assignments were made. To do a good job in this year's new stock issues, the following major tasks hold the key:

—It is imperative to do a good job in selecting enterprises. When enterprises are being selected in various places, the emphasis should be on selecting productive enterprises with clearly defined uses for funds and fairly high managerial and operational standards. Enterprises selected for issuing stocks to the public must be reorganized into stock companies strictly according to the requirements set forth by the "Procedures for Experiments on Stock Enterprises," "Suggestions on Standards for Limited Companies," and other documents. The

soon-to-be-published "Interim Regulations Governing Stock Issuing and Trading" also spells out the basic conditions enterprises must meet in order to issue stocks, including the capital investment by the initiators, the proportion to be issued to the public, the ratio between tangible assets and intangible assets, company profit records, and so forth, which must be followed in all places.

—Strengthen the role of the intermediary organizations in stock issuing. Based on what we have learned from the successful experience of stock market operations in foreign countries, to issue stocks in our country, enterprises must be examined, appraised, and endorsed by securities firms, accountants, lawyers, and assets appraising organizations, and these intermediary organizations must assume greater legal responsibilities. The financial auditing of an enterprise must be done by an accounting firm, whose qualification is recognized jointly by the Securities Supervision Commission and the Ministry of Finance. The appraisal of the enterprise's assets must be made by an assets appraising organization jointly recognized by the Securities Supervision Commission and assets appraising organizations. All the papers regarding the stock issue of the enterprise must also be examined, and a legal opinion statement prepared, by a lawyer's office jointly recognized by the Securities Supervision Commission and the Ministry of Justice. The issuing of stocks should be organized and coordinated by an underwriter. It must be emphasized that the above-mentioned intermediary organizations are to be chosen by the enterprises independently.

—An application for the issuing and marketing of stocks must be filed for approval according to the established procedures. Based on the provisions of relevant State Council papers and regulations, the issuing and marketing of new stocks should be handled according to the following procedures.

Step one: Local governments and departments of the central government in charge of enterprises select the enterprises which may apply for issuing stocks to the public within the quotas for stock company issues set by the state.

Step two: The selected enterprises choose an underwriter to make overall arrangements for the stock issue, engage at the same time a qualified accounting firm and assets appraising organization to audit and appraise their finances and assets, and engage a qualified lawyer's office to handle the legal matters concerning the stock issuing and marketing. After completion of the work described above, the enterprises may submit the relevant materials to the local governments and the relevant departments of the central government for examination and approval.

Step three: After receiving approval of their stock issue application, the enterprises submit the relevant materials and the decision on the examination and approval to the Securities Supervision Commission for reexamination. The reexamination at the Securities Supervision Commission

is carried out by the Stock Issue Examination and Verification Committee, which is composed of specialists including accountants, lawyers, securities dealers, exchange representatives, Securities Supervision Commission representatives, and well-known scholars. Those approved by the reexamination may start working on the stock issues and apply for putting stocks on the market. The issuing and marketing should take place in succession. That is, only after the securities market has given approval for the stocks to be listed, are the stocks to be issued from a designated date. And to prevent trading in the black market, no over-the-counter deal is allowed for the time being. The local governments or the relevant departments of the central government will help the enterprises, which fail to pass, to meet the requirements, or select other enterprises, in which case the quotas will remain valid.

Step four: The enterprises request to put their stocks on the market. The requests should be examined and approved or disapproved by the listing committee of the securities exchange within a specified time limit. The result of the examination, approval or disapproval, is reported to the Securities Supervision Commission for the record, and a copy of the report is sent to the Securities Commission.

—Do a good job in the offering and subscription of new stocks. Because the experiment on new stock offerings and subscriptions is conducted on a larger scale throughout the country this year, it is extremely important to do a good job in the issuing. For this reason, we have enacted the "Procedures for the Offering and Subscription of New Stocks (for Trial Implementation)" and made a number of decisions on principles. The localities should conscientiously organize, coordinate, insure the smooth progress of this year's new stock issuing and marketing work, and must under no circumstances take this slightly.

3. *Strive to do a good job in the standardization of share systems, particularly the share system with shares held by internal workers and staff members.* The share system with shares held by internal workers and staff members was experimented on a large scale in various places last year. The practice in many places was not standard, not in line with the recommended standardization requirements, and allowed internal shares to be sold to the public. Some places even saw serious black-market activities, making it somewhat more difficult to issue stocks this year. From now on, we must do a good job in standardization and clearing up the confusion according to the regulations.

4. *Check out without delay a number of qualified accounting firms, lawyers' offices, and assets appraising organizations to enable the enterprises, which will issue stocks to the public this year, to begin preparatory work as early as possible.* So far, a first group of 45 accounting firms, 35 lawyers' offices, and 21 assets appraising organizations have qualified. The screening will continue.

5. *Improve the supervision and control organs.* The Securities Commission and the Securities Supervision Commission should strengthen themselves as quickly as possible to fulfill their responsibilities, devote themselves completely

to the supervision and control of the securities markets, and prevent supervision and control from getting out of touch with reality.

6. *Do a good job in supervising and controlling enterprises putting stocks on overseas markets.* At present, many enterprises, eager to put their stocks on overseas markets, are repackaging themselves in a variety of ways. Theoretically speaking, many of the practices are good, but whether they will, in practice, cause losses in state-owned assets, erode the interests of domestic stockholders, and so forth, is not known yet. The State Council has clearly stipulated that approval must be obtained from the Securities Commission before stocks can be put on overseas markets, and will publish management procedures in the near future.

7. *Pay attention to the training of qualified people.* The training of highly qualified securities market specialists is a long-term, arduous task and an important condition for market development. It is imperative to establish a system and pay attention to it constantly and untiringly.

#### **Enterprises Use Stocks as Means of Financing**

93CE0528A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 4, 11 Apr 93 pp 18-22

[Article by Li Maiqiu (2621 7796 4428) and Que Fangping (7067 2455 1627), affiliated with the Wuhan branch of the PBC: "Direct Financing: An Effective Market-Entry Means for Banks and Enterprises"]

[Text]

#### **I**

Direct financing, as opposed to indirect financing, refers to financing conducted by parties with fund shortages (issuers), who do not go through any financial intermediary agency or securities company (exclusive sales agents or distributors), to borrow from parties with fund surpluses (investment corporations or natural investors), or to issue negotiable securities (stocks and bonds). Direct financing generally refers mostly to the financial action of financing through issuing negotiable securities, which is characterized as follows: 1) It is direct, in that issuers acquire funds directly from investors, either through direct bonded-debt relations being established between the two parties, or through the form of stock rights. 2) It is long-term in that, as compared to indirect financing, the use terms of funds acquired through direct financing are longer than those for indirect financing, with use terms in some cases (such as stocks) even being openended. 3) It is irreversable in that, if direct financing occurs in the form of issuing stocks, it is not necessary to repay the principal on funds so acquired, with investors who wish to recover (realize) their capital having to make use of circulation markets, which have no direct relation with issuers. 4) It is negotiable, in that the major direct financing means are stocks and bonds, which are negotiable on secondary securities markets, so that direct financing means are distinctly characterized by negotiability.



Table I. The Overall Volume and Structure of China's Finance for 1985 Through 1990

Year	Direct Financing		Indirect Financing		Totals	
	Absolute Figure (100 Million Yuan)	Relative Figure (%)	Absolute Figure (100 Million Yuan)	Relative Figure (%)	Absolute Figure (100 Million Yuan)	Relative Figure (%)
1985	242.21	3.70	6,271.9	96.30	6,514.11	100
1986	407.14	4.78	8,116.5	95.22	8,523.64	100
1987	528.61	5.13	9,766.3	94.87	10,294.91	100
1988	978.45	7.89	11,425.0	92.11	12,403.45	100
1989	1,267.42	8.60	13,469.5	91.40	14,736.92	100
1990	1,753.77	9.59	16,541.3	90.41	18,295.07	100

Notes: 1) Direct financing refers to negotiable securities year-end balance (inventory), and indirect financing refers to state bank and credit cooperative year-end loan balance (savings).

2) All data calculation and collation is based on the *China Statistics Yearbook* (1991).

Indirect financing activity is exactly the opposite from direct financing, in that it is financing conducted through the intermediary of financial institutions, or could be said to be investment by initial fund providers through financial intermediaries in final fund demanders, with its financing instruments being mostly savings and loans. Indirect financing has exactly the opposite characteristics from direct financing, being indirect, short-term, reversible, and nonnegotiable.

The two financing forms of direct financing and indirect financing are differing options by different countries in various development stages, with their respective overall volumes and structures varying with changes in degree of financial depth and creativity. While it can be generally said that the percentage of indirect financing drops steadily and that of direct financing rises steadily with financial depth, once a certain point is reached, their respective percentages will remain at a relatively steady level. According to the thesis analysis of financial depth by Raymond W. Goldsmith in *Financial Structure and Financial Development*, until the financial interrelation rate

(FIR) (financial assets inventory [F] divided by GNP [I]) reaches a financial structure depth of about 1.5, the respective percentages of direct and indirect financing are always in a state of development and change.

As to China's conditions, the process of financial reform and financial depth has rapidly swelled China's financial assets inventory, pushing our financial interrelation rate (FIR) up from 0.42 in 1978 to 0.96 by 1990. Meanwhile, China's means of financing have diversified so that, as our overall financing volume has grown rapidly, our financing structure has begun to change. In 1980, direct financing in the form of negotiable securities was almost nonexistent in China. By 1985, China's overall financing scale had reached 651.411 billion yuan, of which a high of 96.3 percent was still indirect financing and only 3.7 percent was direct financing. But through just a few years of growth, when our overall financing scale had reached 1.829 trillion yuan in 1990, the direct financing percentage was up to 9.59 percent, while indirect financing was down to 90.41 percent. This was an amazing achievement!

## II

Table 2. The Qualitative Makeup (%) of Financial Instruments in China's Banking System

Financial Instruments	1982	1983	1984	1985	1986	1987	1988	1989	1990
Creditor Financial Instruments	97.42	96.00	96.70	96.21	94.71	93.56	91.80	90.90	88
Holdings Financial Instruments	2.58	3.20	3.30	3.79	5.29	6.44	8.20	9.10	12

Note: The qualitative makeup of financial instruments refers to the ratio of the load of financial assets in all types of financial instruments to overall financial assets. This table is based on the relevant data calculation and collation in *China Financial Yearbook* and *China Statistics Yearbook*.

But it should be noted that the existing problems in our current financing order cannot be ignored. It is absolutely undeniable that our financing structure (made up of the respective percentages of direct and indirect financing) is highly interrelated with the assets-liability structure of our banks and enterprises, with China's current financing structure being determined by the assets-liability structure (or financing structure) of our banks and enterprises. As to our specialized banks, their assets-liability structure is slanted mainly toward the indirect financing means of savings and

loans. Taking the Industrial and Commercial Bank of China (ICBC) as an example, in its 1989 indirect financial instruments, all savings made up 62.86 percent of its liability structure while, in its direct financial instruments, all loans made up 87.53 percent of its assets structure, meaning that its assets-liability structure was slanted toward savings and loans. As to our overall banking system, if we distinguish financial instruments as indirect-financing creditor financial instruments and direct-financing holdings financial instruments (as to so-called creditor financial instruments,

we define them as financial instruments in which creditor's rights cannot be transferred, mainly nonnegotiable financial instruments, with ones, such as all financial institution savings, PBC borrowing, and all loans, belonging to the category of creditor financial instruments; as to so-called holdings financial instruments, we define them as financial instruments in which creditor's rights can be transferred, mainly all types of negotiable securities), then we can see that by 1990, the financial instruments in China's banking system were slanted mainly toward indirect-financing creditor financial instruments, whose qualitative makeup was a high of 88 percent. As to enterprises, the fund source structure of Chinese enterprises is limited by our stock market operations being in an initial stage and an overemphasis on nonmarket-oriented indirect financing. From 1986 to 1988, over 67 percent of the fund sources of Chinese enterprises were dependent on bank loans, which were growing in momentum, with internal funds (depreciation funds and enterprise own working capital) averaging about 30 percent, which was in a declining trend, in addition to about 1 percent dependence on direct financing—fundraising through issuing negotiable securities. An international comparison shows that the enterprise financing structure in developed industrialized countries is generally more than 50 percent internal funds and less than 50 percent external funding. And of this external funding, direct financing through negotiable securities occupies the decisive position. In the late 1950's and early 1960's, the percentage of direct financing in enterprise external funding was 26.32 percent in Japan, 57.14 percent in the United States, and 55.26 percent in Great Britain. Since the 1980's, the Western developed industrialized nations have paid more attention to enterprise self-accumulation so that, while enterprise internal funds play the dominant role in their financing structure, at basically 60-80 percent, and the external funding percentage is down, direct financing through negotiable securities still accounts for about 20-40 percent of their external funding. In this, the percentage of direct financing through negotiable securities is highest for U.S. businesses, where the 1991 external financing makeup was 58.3 percent direct financing and only 41.7 percent indirect financing.

The problems caused by China's abovementioned financing structure are severe. As to enterprises, the existing financing order means that enterprises lack internal driving forces and external restraint forces, makes the one enterprise debt factor of borrowing from banks 2-5 times that of enterprises in developed countries, makes it hard to ever escape the dependence on banks, and keeps fund use efficiency low. Moreover, since 1989, one-third of state-owned and -budgeted enterprises have sustained losses, with another third reporting profits but actually sustaining losses. On the other hand, as to banks, large amounts of bank credit funds that come mostly from individual savings are idle and dead, with most enterprises unable to repay bank credit funds, and stuck in the position of taking out new loans to repay old ones, so that bank credit assets are eroded and shrunk. And as banks are forced to repay capital with interest on individual savings deposits, bank debt grows inexorably. As to banks that

undertake the huge risk involved in indirect financing, their existence and development are severely threatened. This enormous risk is expressed mainly in the following two areas: 1) Breach-of-contract (default) risk. In current bank assets, over 120 billion yuan worth of loans are unrecoverable, with this default risk completely undertaken by banks. This limits bank self-development, thus correspondingly curbing the overall growth of financial assets. 2) Purchasing-power risk. As banks were always in a credit-shortage position, the successive years of inflation in the 1980's directly caused bank losses of almost 130 billion yuan (calculated according to national-income average-reduction index). If this situation is not promptly changed, it will threaten the normal operation of our national economy. And an effective way to change this situation would be to vigorously develop direct financing while doing a good job of indirect financing.

### III

In order to develop direct financing, it will be necessary to understand its importance from a higher theoretical plane. While theoretically, we cannot deny the historical role of indirect financing; as to financial depth and financial creativity, as long as direct financing is equipped with the two basic conditions of a stock-market issuing or circulating system and a joint-stock company system, it will have at least the following three major socioeconomic effects:

#### I. Macroeconomic Effects

- It will produce a more efficient and competitive system of financial organization to optimize the financial structure: 1) Direct financing will not hinder "financial depth," but will actually instead utilize market advantages to promote "financial depth" and break out of the bounds of "financial inhibition." 2) For financiers (issuers), it will provide another funding source, keeping banks from developing into the only financial organization, and moving the financial system in a more diversified direction. 3) It will make the financial system's component elements more specialized, market-oriented, and creative, optimizing the financial structure.
- It will better mobilize domestic savings to speed up the growth of our industrial economy: 1) Direct financing interest rates are more likely to be real ones instead of ones set by executive order. 2) The incentive impact of real interest rates will mean that people will invest and save more, instead of consuming, buying real property, or going abroad in search of profitable investments, which will increase domestic overall savings or overall financing volume.
- It will optimize the disposition of resources to speed up adjustment of the industrial structure: 1) Direct financing is mostly fundraising through issuing negotiable securities, with securities trading on stock markets shifting investments on one hand, while redeploying resources on the other, to optimize the industrial structure. As it reflects the market economy law of value

better than does planned disposition, it is more effective. 2) Direct financing through stock-market disposition of resources can improve resource disposition methods to prevent corruption and political favoritism.

- It will improve the fund (-raising and -use) term-structure conversion process: 1) Direct financing makes it unnecessary for banks to undertake alone the duty of long-term or short-term financing, correspondingly reducing the risk to bank credit assets due to a single variety. 2) Securities liquidity makes savers willing to make long-term investments, thus making it easier for key sectors of the national economy, such as power and transportation, to acquire long-term construction funds. 3) Securities liquidity can correspondingly reduce the paired imbalance in fund supply and demand terms, so that the banking industry develops more steadily.

## 2. Microeconomic Effects

- It will improve the enterprise assets-liability structure: 1) It will improve the ratio of bond to shareholder equity. 2) Through the liquidity of (held) securities, it can improve the ratio of long- to short-term bonds. 3) Direct financing can reduce the dependence of enterprises on overdrawn indirect financing (bank borrowing  $\geq$  bank deposits).
- It will make it easier for new enterprises to acquire financing: 1) Indirect financing often excludes new enterprises lacking in long histories, enterprise group ties, and securities, while direct financing puts new and old enterprises on an equal footing. 2) In a dynamic direct-financing climate, venture capital financing by new enterprises is even more dynamic, better reflecting the separation of enterprise ownership and operating authority. 3) The existence of markets provides direct-financing prices and buyers, making it easier for enterprise founders to sell large quantities of securities and transfer services to professional operators.
- It will force enterprises to improve their management: enterprises that engage in direct financing on stock markets must publicize their funding and financial conditions and subject themselves to public oversight, which forces them to improve their internal financial affairs and enhance their operation and management.

## 3. Social Justice Effects

- Direct financing provides wider opportunities to take part in attractive investments: 1) Small savers limited by low incomes will certainly not necessarily have to save in banks where interest rates are strictly controlled. 2) As long as they are willing to invest, those of varying incomes can all participate in national economic development. 3) In the direct-financing process, reserve and insurance funds have wider investment opportunities.
- Direct financing clarifies ownership: 1) Stock trading on stock markets directly decentralizes enterprise ownership, separating ownership from operating authority. 2) Direct

financing makes it no longer necessary to create a nonofficial capital market through forming an industry—a financial group.

- Direct financing makes taxation fairer: the longstanding publicity of enterprise financial affairs will improve tax conditions, making taxes fairer and more rational.

## IV

The above discussion enables us to theoretically confirm that a simple substitution relationship certainly does not exist between direct and indirect financing, with direct financing being the result instead of an evolution to a higher form of financing, whose appearance has an immediate far-reaching and widespread economic impact. Someone did a comparative analysis of the financing results of 21 large- and medium-sized enterprises in Hunan Province, finding that: the fund use efficiency in direct financing is clearly higher than in indirect financing, with direct financing being superior to indirect financing as to either fund formation and use mechanisms or enterprise restraint and management forces.

**Table 3. Comparison of Fund Use Efficiency from Direct and Indirect Financing in 21 Hunan Enterprises; Unit: 100 Million Yuan**

Financing Form	Amount	Rate of Profit on Capital Fund %	Capital Returns Rate %	Capital Output Value Rate %
Indirect Financing	18.5	7.68	288.24	292.81
Direct Financing	2	8.32	291.4	293.4

As a supplement to stock market development in a developing country, the production and development of direct financing cannot be a "natural evolution," but can only rely on "government promotion," which promotion must have a certain material basis—a stock market issuing and circulation system and a shareholding system. While China has accumulated a certain amount of experience in this area, it needs to be particularly noted here that relying on "government promotion" of direct financing must adhere to the following principles: 1) The appropriate scale principle. Direct financing growth must have a rate limit, with the international setting of direct financing rates generally using two methods: a) the ratio of all negotiable securities issued in a year to GNP; b) the ratio of all securities issued in a year to generalized savings net growth. While these two ratios are about 20 percent and 50 percent, respectively, in developing countries, they were 5.31 percent and 20 percent, respectively, in China in 1990. In light of this, we would suggest that China's direct financing scale can be set according to the following two indexes: a) A ratio of all securities issued in a year to GNP of 10 percent; b) A ratio of all securities issued in a year to generalized savings net growth of 30 percent. 2) The credit balance principle. Direct and indirect financing are two credit fund distribution forms, and a society's credit fund sources are limited, so that the growth in size (scale) of



direct financing should stand in a relationship to indirect financing of one increases when the other decreases. Thus expansion of direct financing scale should be accompanied by a corresponding decrease in indirect financing—bank loan scale, in order to ensure an overall-credit supply and demand balance. 3) The noninflationary principle. An expanded direct financing scale will increase fund supply channels on one hand, while speeding up the velocity of the circulation of money and thus, increasing the amount of money in circulation, on the other. So under these conditions, we should correspondingly lower the growth rate of the overall money supply, in order to reduce potential inflation pressure. 4) The optimum investment-orientation principle. As the funds raised through direct financing can be used to increase either fixed assets investment or working capital accumulation, the two must stand in a balanced ratio. So the investment orientation of direct financing must be based on the principle of optimizing the ratio of fixed assets investment to working capital accumulation, being set rationally based on national industrial policy, enterprise policy, and national economic development plans.

Based on these principles, we should now proceed in the following areas to cultivate the entry into markets for direct financing activities by banks and enterprises, in order to fundamentally rationalize the relations between banks and enterprises, and raise fund use efficiency:

1. We should promote the entry into stock markets by enterprises to take part in direct financing: a) We should speed up the pace of shareholding-system reform by enterprises, particularly large and mid-size state-owned ones, by correspondingly upgrading and improving enterprise accounting, auditing, and assets- and credit-evaluation systems, so that enterprises can become key corporate players that are independently-run, solely responsible for both their profits and losses, and liable for their own risks; b) We should improve the climate for direct enterprise financing in ways, such as easing the terms for issuing negotiable securities, streamlining examination and approval formalities, adding stock-listing circulation network points, and providing financial subsidies or tax reductions and exemptions for direct financing where costs are higher than for indirect financing; c) We should take forceful steps to stipulate that enterprises, particularly large- and medium-sized state-owned enterprises, maintain a set percentage of securities assets or liabilities in their assets-liability makeups. Until the minimum percentage is reached, enterprises should not be allowed to obtain bank-loan support, and banks should give priority loan rights to enterprises with higher rates of securities in their assets-liability makeups. As the first step, we could test this in certain selected large- and medium-sized state enterprises with better economic efficiency.

2. We should speed up the reform pace of making specialized banks more businesslike, by promoting market-entry by specialized banks to take part in direct financing: a) we should thoroughly change the current situation of policy and business operations being concentrated in the one institution of specialized banks, by establishing special

government banks for policy operations, and upgrading specialized banks to genuine national commercial banks, which is an imperative step; b) we should ease interest rates control, by allowing the savings and loan interest rates of all specialized banks to float along with benchmark rates set by the central bank, which will make interest rates market-oriented; c) all specialized banks should maintain a set percentage of securities assets and liabilities in their assets-liability makeup, with stipulated minimum securities percentages in assets-liability makeup, and permission refused to acquire central bank rediscount or reloan support until minimum percentages are reached. As to increasing securities liabilities, specialized banks should issue more financial bonds. And as to increasing securities assets, specialized banks should reduce their credit lending, while correspondingly increasing securities-secured discount lending, and even the use of their own funds to buy enterprise-issued negotiable securities.

3. The central bank should enter the stock market to strengthen its indirect regulation and control function. In line with direct financing features, central bank macroeconomic regulation and control should operate as follows: A) For specialized bank deposits in the central bank, there should be differential deposit reserve fund rates: the longer the deposit term and the smaller the size, the lower the reserve fund rate; the shorter the deposit term and the larger the size, the higher the reserve fund rate. The practice of differential reserve fund rates is aimed mainly at facilitating the regulation and control of the two specialized bank securities-secured discount lending processes of remortgaging and rediscounting. In these two processes, when direct financing converts long-term banks deposits into short-term ones, the deposit reserve fund rate will automatically rise and the bank credit scale will automatically shrink. b) For specialized bank rediscount business, there should be differential rediscount rates. The central bank should conduct as little relending as possible, and more rediscount business, particularly securities rediscount business. As to securities rediscount business, the rediscount rate could be moderately lower than other note discount rates, as an incentive for direct financing, and to lay the material foundation for the central bank to initiate open market business. c) The fund call markets in a few key cities should be used as carriers for issuing central bank bonds, with the issuing targets being all financial institutions that have dealings with these cities' fund call markets, interest rates being market-oriented, and transfer and sale allowed among financial institutions. When money is easy, the central bank can use relending to buy in central bank bonds or other negotiable securities and, when money is tight, it can issue or sell off central bank bonds and other negotiable securities. The operation of these regulation and control measures can accompany bank credit-fund reform, by changing specialized bank temporary and even seasonal fund need from the direct-input form of relending to the indirect-input form of buying specialized bank-held central bank bonds and other negotiable securities, in order to push specialized banks toward markets and break up the fund "supply system."

## SMALL-SCALE ENTERPRISES

### Henan Vice Governor Advocates Upgrading Enterprises

93CE0654B Zhengzhou HENAN RIBAO in Chinese  
3 Jun 93 p 1

[Article by Yang Qingping (2799 7230 1627) and Guo Xuetao (6753 1331 3447): "Henan Vice Governor Li Chengyu Calls at a Provincial Conference on Four Enhancements' of Township Enterprises for Upgrading Township Enterprises in Scale, Level, and Grade"]

[Text] At the Conference To Exchange Delegate Experiences on Enhancement of County (City), Township (Town), Village, and Enterprise-Level Township Enterprises, held in Yanshi County by the Henan government on 28-30 May, Vice Governor Li Chengyu [2621 2052 3768] (former Vice Chairman of the Ningxia Hui Autonomous Regional People's Government) made an important speech.

Since reform and opening, Henan's township enterprises have developed briskly, to the point where we now have 22 at the county (city) level with output values exceeding 1.5 billion yuan, six at the township (town) level with output values topping 500 million yuan, 16 at the village level with output values over 100 million yuan, and 26 at the enterprise level with output values of more than 40 million yuan. They are the leaders of township enterprises throughout Henan, playing an exemplary role.

Vice Governor Li Chengyu summed up the major "four enhancements" experiences in four points. 1) A leading group that dares to make breakthroughs and unite in struggle, with new concepts, foresight, disregard for trends, and an unrelenting emphasis on township enterprises. 2) A firm adherence to the rural industrialization path, daring to fight and advance in the midst of sharp market competition, acting in a timely manner, and taking advantage of growth opportunities. 3) Being adept at seizing opportunities, and daring to take chances. This is characterized by being highly sensitive to economic trends, meaning that when state credit is easy, emphasizing extensive development by upgrading projects and scale and, when state credit is tight, emphasizing intensive development by looking for better efficiency through improved management. 4) A display of talent and promotion of S&T advances. The "four enhancements" development and strengthening process means being adept at borrowing ladders to climb and brains to produce wealth, being good at introducing, keeping and using talent well, and being willing to spend one's own money to import advanced equipment and technology, thus achieving high-starting-point, high-tech, and widely spanning development.

Li Chengyu called for disseminating the "four enhancements" experience throughout Henan, in order to upgrade township enterprises in scale, level, and grade, which he

explained as follows: Upgrading in scale means adjusting enterprise structures, by developing key enterprises as the basis for organizing enterprise groups to take part in domestic and international competition, with the guarantee of this upgrading being increasing fund investment by all means. Upgrading in level means promoting S&T advances to raise the overall quality of township enterprises. All areas must import as much high technology as possible to upgrade traditional industries, study advanced management experience to raise township enterprise management level, and take advantage of preferential policies to attract more talent to be put to good use in township enterprises. Upgrading in grade means developing new, superior, brand-name products, eliminating outdated ones, and producing marketable products in line with national and international standards.

Li Chengyu emphasized that: We are calling not only for township enterprises to grow in output value, but also for synchronized growth in scale, efficiency, level, and quality, with indexes, such as sales income, taxes, profits, wages, and fixed assets, as a comprehensive assessment of township enterprise growth rate. Accelerated township enterprise growth means taking advantage of the shareholding cooperative system breakthrough, with future new qualified enterprises becoming shareholding cooperatives as much as possible, and existing village and township collective enterprises also gradually developing into shareholding cooperative ones, in order to solve problems such as weakened mechanisms and funding shortages. Faced with our "GATT reentry," township enterprises need to sharply develop their export-oriented economy, with the foreign trade sector publicizing the four items for township export-earning enterprises of customers, prices, standards, and foreign exchange retention, in order to ease somewhat the export-earnings climate, and township enterprises being selective of their foreign trade sectors, by adopting diversified-form and multiple-port exports.

Li Chengyu pointed out that as vigorous development of township enterprises is the strategic priority set by the Henan party committee and government to reach the goals of revitalizing our rural economy and becoming comfortably well-off, governments at all levels must give it a dominant role in their rural economic work, and all functioning departments must also pay it much attention and give it active support.

The conference cited five enterprises for output value over 100 million yuan: the Liuzhuang Pharmaceutical Development Factory, the Changge Yellow River Ground-Tool Plant, the Central Plains Industry and Trade Corp Food Plant (Linying, South Street), the Jiaozuo Bus Factory (Mengxian Co, Xidai), and the Zhengzhou Tractor Plant's new Xizheng branch. Certain "four enhancements" delegates introduced typical experiences, which a stream of provincial departments expressed the desire to fully disseminate, in order to push Henan's township enterprises to new heights.

### Heilongjiang Deputy Secretary Urges Enterprise Growth

93CE0654A Harbin HEILONGJIANG RIBAO  
in Chinese 2 May 93 pp 1, 2

[Summary of speech (place and date not given) by Heilongjiang Provincial Communist Party Committee Deputy Secretary Shao Qihui (6730 1142 1920) at: "Provincial Working Conference on Heilongjiang Township Enterprises"]

[Text] Many comrades who have been south and seen the township enterprises there say that in comparison to many regions throughout China, we still have a quite large gap. In other words, "while those who have not made the comparison do not know, those who have have been startled by it."

So where is this gap? I believe that generally speaking, we are not deficient as to understanding, degree of emphasis, policy, or qualifications, but that our gap is one of surface implementation.

On the surface, our implementation gap is expressed mainly in the following two areas: 1) Departmental goals are decentralized, so that work is not initiated focused on central or priority tasks. 2) Our cadres are severely accustomed to indecisive and ineffective bureaucracy, with some sectors of our provincial government lacking a resolute workstyle. But underneath we are hampered by the three problems of a traditional mentality, a backward methodology, and a bureaucratic workstyle. Our traditional mentality is our planned economy thinking, expressed in: a) A focus on careerism, with the authorities issuing orders that subordinates follow, hesitation, dependency, and need. b) Large in size and collective in nature, with a predilection to acting in a large and collective way. c) Lacking in initiative and overcautious, following the prescribed order, not being adept at seizing markets and opportunities, and lacking a sensitive response to markets. Our backward methodology is mainly our administrative methods. Many localities apply traditional agricultural or industrial management methods to township enterprise management, overcontrolling these new enterprises that are characterized by flexibility; some township governments interfere too much with township enterprises, putting in overlapping administrative organs, and arbitrarily encroaching on township enterprise interests; and some township enterprises copy state enterprise administrative organization, putting in cadres who are not engaged in production, which degrades or weakens vital enterprise forces. In addition, our bureaucratic workstyle is expressed mainly in a confrontation with private enterprise, with inattention to one's proper business, an overconcern with other people's business, and in some cases simply being nonfunctioning bureaucrats. While these problems are not mainstream ones, they have quite an impact on our implementation of all township enterprise work, so should arouse serious attention.

It is now clear that the key to pushing Heilongjiang's township enterprises toward high growth and efficiency advances is an emphasis on implementation. So the

Heilongjiang party committee and government are not setting any new strategies, slogans, or objectives for township enterprise development in 1993, with 1993's task being to continue to implement the ideas and measures set forth at 1992's provincial township enterprise conference, or to solidly implement the demands already made by the Heilongjiang party committee and government.

In order to implement 1993's township enterprise work task, we will have to compare our conditions with those of our fraternal provinces and cities, so that we can change our mentality and clarify our route. The township enterprise goal set forth in 1992 of 26 percent growth a year for the next three years was based on calculations derived from a plan for doubling in the next three years. Achieving high growth will mean developing the drive to catch up to and surpass the advanced, along with setting a scientifically correct ideological route. This so-called clarifying our route means comparing our methods to those of advanced zones, combining them with our local realities, strengthening our market orientation, and relying on the impact of S&T to develop high-growth and efficient township enterprises.

### Clarifying Our Route Means Prominently Emphasizing Several Matters

1. *We need to emphasize the simultaneous development of diversified economic components.* Our past talk of township enterprise development made us think about the conventional method of "returning to the big heap," which will not do, as we need to simultaneously develop diversified economic components. As to Heilongjiang's township enterprises in 1993, we need to emphasize development of the individual (self-employed) economy, the private economy, and the three kinds of foreign trade enterprises. As to Heilongjiang's realities, our individual and private economies make up only 4 percent, so that our public (state-owned) foundation is unshakeable. In developing our individual and private economies, we are going to have to set forth certain measures. The most essential one at present is to treat all economic components equally and without discrimination, by setting up less blocks and providing more support. We have put many improper restrictions on our individual and private economies, which now need to be eased at all levels. As to peasant shareholding cooperative enterprises, we must pursue a policy of "development and diversification before standardization and regularization," to give them free rein to grow. Our experience in the Mudanjiang suburbs shows that the peasant shareholding cooperative system has the advantages of both the shareholding and cooperative systems, being the best current way to adjust our rural economic structure and convert our rural economic operating forces. In light of Heilongjiang's realities, it can at least play the following four roles: 1) It can adjust production relations to adapt them to the new productive forces. Once peasants become shareholders, this establishes their dominant status and clarifies their property rights relations, which links shares to interests and mindsets, sharply



arousing initiative. 2) It converts large amounts of consumer funds into production capital. For the whole Chinese economy, not only the rural areas, a great problem is how to effectively convert consumer funds into production capital, which the shareholding cooperative system solves. 3) While continuing to maintain the stability of the system of linking remuneration to output, it develops a very vital collective economy which, based on a stable system of linking remuneration to output, achieves a fair, rational, and efficient assembly of production essentials, such as funds, technology, and labor. 4) It promotes a profound change in the leadership style of the rural economy.

**2. We need to emphasize a market orientation.** Our past leadership of township enterprises was accustomed to setting targets and assigning tasks. While these methods are partially still necessary, they are essentially not suitable. Our current key task is to teach, guide, and help peasants to become market-oriented, so that they can use a market-economy perspective to understand, analyze, establish, develop, and seize markets. We need to emphasize a market orientation, encouraging market criteria and township enterprise growth rates. "Market criteria" means developing according to market demand, while "township enterprise growth rates" mean an emphasis on growth, doing things simply and thriftily, steady improvement, and seizing growth opportunities. Whatever someone else has not done, we need to first invest in marketing so that, by the time they get around to it, we will have already had the best of it. As S&T developments and economic-system changes have now sharply shortened product life cycles, a market orientation means an emphasis on speed. Township enterprises ought to be the forerunners of a market economy, so that future township enterprise development should be according not to planned targets, but rather to market demand. Markets here mean not only those in one's own township, county, or province, but rather an orientation to the whole of China and the world. As certain township-enterprise companies are not located in the local township, township enterprises are not necessarily run within townships.

**3. We need to emphasize an externally oriented economy.** As to township enterprises, the current greatest opportunity is our open borders, with the broadest markets being the Far East and Northeast Asia markets. We need to exploit our advantages. Our area with the greatest potential and advantage is barter trade in the Far East region. It is understood that in some provinces, every village conducts foreign trade and every township has foreign investment. As only 3 percent of Heilongjiang's villages and townships now conduct foreign trade and have foreign investment, we will have to emphasize this. It will be only by developing an externally-oriented economy that we will be able to grow by leaps and bounds.

#### **There Are Several Implementation Priorities That Need To Be Emphasized**

**1. We need to emphasize the building of 100 small industrial zones.** The leadership at all levels certainly needs to acquire a better understanding of this matter of small industrial zones, as development of industry differs from that of

agriculture. The use of backward management methods, including the traditional agricultural management form, will not manage industry well, as industrial development has unique features. In addition to a factory's own qualifications, industry needs conditions such as environment, transportation, communication, service, energy sources, and tertiary-industry services. As these conditions are limited, not all villages and townships can run industries. These conditions require a relative concentration, as a single factory cannot support such an array of public facilities. So small industrial zones should be concentrated in tract developments. In addition, small industrial zones differ in concept from the development-zone idea that we have set forth, with development zones being a higher-level type of economic zone. So our small industrial zones must not "be spread out evenly," but rather must be combined with small-town development, which is actually also a possible rural urbanization route. Of our current 133 reported small industrial zones in all areas, some have already done a good job of planning and construction of some infrastructure projects, but most have not yet made substantive progress, and are still in an initial stage. In our development of small industrial zones, it is most crucial that planning be longer-range, so that distribution is not chaotic right from the start.

**2. We need to emphasize the building of 50 township markets.** As to market development, the Heilongjiang Planning Commission and Township Enterprise Office have drawn up plans, which will proceed after examination and approval. But it needs to be emphasized that market construction is not an end, but rather a means, as market development is only a part of a market economy, meaning that the building of markets does not mean the realization of a market economy. On the other hand of course, a market economy is impossible without markets. So our market development must be combined with matching production, manufacturing, transportation and communications, and commercial catering services. In addition, we need to overcome formalism, by not setting up sites that have no markets. Through conscientious investigation and study, those with the right qualifications can concentrate their forces to achieve gradual improvement, not necessarily immediate perfection.

**3. We need to stress the personnel talent issue.** Not enough talented personnel and relatively low quality are crucial limiting factors in Heilongjiang's township enterprise development. Particularly in a market economy, the township enterprise "capable-personnel economy" feature is even more prominent. All well-run township enterprises have one or more capable personnel. Currently well-run township enterprises have the two prerequisites of good products and capable personnel. There must be either management or technical talent, without which things will not work. But within these two qualifications, while products can be developed if there are capable personnel but no products, things may go well today but collapse tomorrow if there are good products but no capable personnel. So personnel is the most crucial factor. While we can of course introduce capable personnel from outside, hiring them at high salaries, the most important way will be to train them

from within Heilongjiang, in local cities, counties, and townships, cultivating capable personnel and technical talent in all ways. In addition, other than scientists and technicians, another important area is our need to cultivate capable personnel among experienced cadres who understand township enterprises, which point must not be overlooked. All areas now have a number of capable personnel who should be employed, with the way paved for them as policy conditions permit.

**4. We need to emphasize the establishment of goods warehouses at all levels.** In our 1993 provincial-level goods warehouses, we need 1,500 storage sites. But we need to pay attention to avoiding formalism in our construction of goods warehouses. If goods are kept in warehouses too long, they get out of date, meaning that we need to regularly organize new goods, changing along with market changes. A clear condition here is that all new projects below the county-level must be undertaken by township enterprises. The key is to introduce township enterprise forces, instead of setting up new state-owned enterprises under the past planned system. The stimulus for new enterprises must be conversion from state-owned to township enterprises. In building projects, we must make great efforts in introducing and joining. While Heilongjiang has successful experience in introducing and joining, there are many problems, the major one being that we want to introduce other people's capital, technology, and goods without letting them make money, including the introduction of foreign investment. When discussing projects, we so politely wine and dine prospective investors, only beginning to make things difficult for them once they really arrive. As our discussions emphasize only advantages, how can this be good or supportable, as the difficulties are certain to show up right from the start. Are people likely to come to invest in Heilongjiang under such conditions? So in lateral alliances, we need to make concessions and provide conveniences, making genuine efforts in this area.

**5. We need to pay attention to solving funding problems.** We need input from all sectors, including banking. As the State Council has announced that it is setting aside 5 billion yuan in funds a year for support to township enterprise development in central and western China, we need to use well these funds set aside by the state for township enterprises, instead of wasting them. We need to use them for enterprises with market demand and good efficiency, so that they can grow as quickly as possible. We need to pay attention to preventing unchecked construction, rampant adding of output value, and fraud. Some areas have already seen the phenomenon of fraud, which means eventual losses for us.

The key to good work implementation lies in the leadership at all levels. We clearly set forth in 1992 that an emphasis on township enterprises was the shared responsibility of the party and government at all levels, including the municipal, prefectural, and country leadership at all levels, as well as all sectors of the provincial government. But we need to clarify one point. When we said that "township enterprises are in a certain sense a leadership

economy," this was only as to the leadership's role, but did not mean that township enterprises must be more planned than the planned economy, or even a leadership economy in which the racking of the leadership's brains makes a township enterprise. Township enterprises are by nature part and the forerunners of a market economy. The key to avoiding subjectivist administrative orders is freeing up thinking and mobilizing the public. If all throughout Heilongjiang genuinely free up their thinking, convert their workstyles, and act pragmatically, I believe that we will certainly be able to reach in advance our goal of doubling the township enterprises throughout Heilongjiang in three years.

## FOREIGN TRADE, INVESTMENT

### Indirect Trade With Taiwan Uneven

93CE0701B Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 137, 15 May 93

[Article by Li Fei (2621 7236) of Taiwan Research Institute, Xiamen University: "An Analysis of Unbalanced Indirect Trade Between the Two Sides of the Strait"]

[Text] Despite several ups and downs, the entrepot trade through Hong Kong between the two sides of the strait has developed at a remarkable speed since its revival in 1979. This unusually fast development in trade is mainly due to increasing amounts of Taiwan products flowing to the mainland via Hong Kong, such a flow of goods serving as a fast-running "engine" driving the machine of the entrepot trade. However, the nonsynchronous increase in Taiwan products flowing to the mainland and mainland commodities going to Taiwan has resulted in unevenness in the exchange of goods, leading to a problem of imbalance in the trade between the two sides.

#### 1. Symptoms of Imbalance

The Taiwan products sold to the mainland via Hong Kong have far exceeded the mainland products supplied to Taiwan in both varieties and value. The development of this situation has inevitably resulted in the increased domination of Taiwan-to-mainland goods in the entrepot trade, adding to the problem of imbalance. Since the revival of trade between the two sides, except for 1979, imports from Taiwan to the mainland have always outstripped the mainland's exports to Taiwan; this was the case throughout the 1980's and has continued to be so in the early 1990's. On average, the former has accounted for 76.0 percent of the indirect trade between the two sides. It hit 89.5 percent in the highest-record year (1985) and was 27.6 percent in the lowest-record year (1979). For most other years, the percentage fluctuated between 75-85 percent. The mainland's exports to Taiwan averaged 24.0 percent of the indirect trade between the two sides. It reached 72.4 percent in the highest-record year (1979), dropped to 10.5 percent in the lowest-record year (1985), and vacillated between 15 and 25 percent for most of the other years. The average difference between the two was equivalent to 52.0 percent of the total indirect trade. The highest-difference year (1985) witnessed 79.0 percent. The lowest-difference year was 1983 when it dropped to 27.4

percent. For most of the other years, it floated between 60 and 70 percent. The ratio between imports from Taiwan and the mainland's exports was the highest in 1985 when it reached 8.25:1 [as printed]. The lowest ratio was 0.38:1 in 1979 (if 1979 is excluded, the lowest was 1.57:1 [as printed] in 1983). The average ratio was 3.16:1. As to the inverse ratio, the highest was 2.62:1 in 1979 (the next

highest inverse ratio was 0.57:1 in 1983), and the lowest 0.12:1 in 1985. The average was 0.32:1. As can be seen, since 1980 when imports from Taiwan began surpassing the mainland's exports, the former has been roughly four times the latter. This has been the most pronounced feature in the development of indirect trade between the two sides.

Table 1. Comparison of Differences in Indirect Trade Between the Two Sides

Year	Proportion(%)				Ratio	
	Taiwan Goods to Mainland	Mainland Goods to Taiwan	Trade Differential	Total Trade Volume	Ratio Between Taiwan, Mainland Goods	Inverse Ratio Between Taiwan, Mainland Goods
	(A)	(B)	(A-B)	(A+B)	(A/B)	(B/A)
1979	27.6	72.4	-44.8	100.0	0.38	2.62
1980	75.5	24.5	51.0	100.0	3.08	0.32
1981	83.6	16.4	67.2	100.0	5.73	0.20
1982	69.8	30.2	39.6	100.0	2.31	0.43
1983	63.7	36.3	27.4	100.0	1.75	0.57
1984	76.9	23.1	53.8	100.0	3.33	0.30
1985	89.5	10.5	79.0	100.0	8.52	0.12
1986	84.9	15.1	69.8	100.0	5.62	0.18
1987	80.9	19.1	61.8	100.0	4.24	0.24
1988	82.4	17.6	64.8	100.0	4.68	0.21
1989	83.2	16.8	66.4	100.0	4.95	0.20
1990	81.1	18.9	62.2	100.0	4.29	0.23
1991	80.6	19.4	61.2	100.0	4.15	0.24
1992	84.9	15.1	69.8	100.0	5.62	0.18
Average	76.0	24.0	52.0	100.0	3.16	0.32

Source: Compiled from figures published by the Hong Kong Government Statistics Department.

The most direct problem resulting from the unbalanced indirect trade between the two sides is the deficit, and the growing tendency of the deficit, suffered by the mainland. Though in 1979 the mainland had a \$34.8 million trade surplus, since 1980 it has all along suffered a deficit, which has fluctuated more or less with the total indirect trade volume. In the first round of fluctuations, the mainland's unfavorable trade balance rose from \$159 million in 1980 to \$309 million in 1981 and then fell to \$68 million in 1983. In the second round, the unfavorable trade balance went up from \$298 million in 1984 to \$871 million in 1985, and then dropped to \$667 million in 1986. In the third round, the figure climbed from \$938 million in 1987 to \$2.31 billion in 1989, then to \$2.513 billion in 1990—the magnitude of increase was rather large during the first three years but shrank remarkably in the last year. In the fourth round, the deficit swelled from \$3.5 billion in 1991

to \$5.1 billion in 1992, showing a further widening of the gap in the bilateral trade between the two sides. As can be seen, the mainland's trade deficit with Taiwan has varied essentially with the growth rate of Taiwan's exports to the mainland; the volume of such exports has directly affected and even determined the magnitude of the mainland's trade deficit. On the other hand, the mainland's exports to Taiwan has had relatively little effect on its trade deficit. Between 1980 and 1992, even the lowest-deficit year (1983) saw a deficit of \$67.9 million suffered by the mainland in its trade with Taiwan. The year with the highest trade deficit was 1992 when the mainland's unfavorable trade balance broke the \$5 billion mark and hit a record high. Through these 13 years, the mainland has accumulated \$18.6 billion in trade deficit, averaging \$1.4 billion per annum. The big deficit means that the mainland has not acted fast enough in the indirect trade between the two sides.



Table 2. Differences in Indirect Trade Volumes Between the Two Sides (Million U.S. Dollars)

Year	Taiwan Goods to Mainland	Mainland Goods to Taiwan	Total Entrepot Trade	Entrepot Trade Differential	Taiwan's Accumulated Surplus
	A	B	C=A+B	D=A-B	E= D
1979	21.5	56.3	77.8	-34.8	-34.8
1980	235.0	76.1	311.1	158.9	124.1
1981	384.2	75.2	459.4	309.0	423.1
1982	194.5	84.0	278.5	110.5	543.6
1983	157.8	89.9	247.7	67.9	611.5
1984	425.3	127.8	553.3	297.1 [as printed]	909.2
1985	986.8	115.9	1,102.7	870.9	1,780.1
1986	811.3	144.2	955.5	667.1	2,447.2
1987	1,226.5	288.9	1,515.4	937.6	3,384.8
1988	2,242.2	478.7	2,720.9	1,763.5	5,148.3
1989	2,896.5	586.9	3,483.4	2,309.6	7,457.9
1990	3,278.3	765.3	4,043.6	2,513.0	9,970.9
1991	4,667.2	1,126.0	5,793.1	3,541.2	13,512.1
1992	6,200.0	1,100.0	7,300.0	5,100.0	18,612.1
Total	23,727.3	5,115.2	28,842.5	18,612.1	—
Average	1,694.8	365.4	2,060.2	1,329.4	—

Source: Same as Table 1.

## 2. Reasons for Imbalance

There are profound reasons behind the enormous imbalance of indirect trade between the two sides of the strait.

In the first place, the mainland's trade deficit is objectively inevitable. It is a result of selection of the best commodities in international trade. In general, Taiwan products, because of their better quality and moderate prices, are ideal substitutes for domestic products in the mainland market. For instance, Taiwan-made machines and electronic equipment are moderately advanced in technology, user friendly, and reasonably priced. There is good after-sale service, and their operation does not require longtime training. For these reasons, they are more suitable for mainland users than products from other sources. Also, many of the machines and equipment imported by Taiwan-mainland joint ventures on the mainland were obsolete items torn down directly from Taiwan's production lines—this has aggravated to a certain extent the mainland's trade deficit with Taiwan. Taiwan's raw materials and semifinished products, especially petrochemicals and electronic parts and components, are well received by many mainland users because they are rather competitive in quality and price and are available in sufficient quantities. In particular, the midstream and downstream enterprises established on the mainland with joint Taiwan-mainland investment are accustomed to relying on Taiwan's upstream and midstream industries for supply of raw materials. As can be seen, Taiwan products, from light industrial consumer goods and intermediate products to certain small packages of production equipment, all have a competitive edge and can capture a significant part of the mainland's rapidly expanding import market. As for the

mainland's exports, though they are somewhat competitive in price, their quality is yet to be improved. At present, the mainland's exports consist mainly of crudely processed primary products and light industrial goods—an export pattern of being strong at the two ends but weak in the middle. With regard to exports to Taiwan, the shortages of energy and materials due to overheated economic development in recent years have affected the mainland's ability to adequately supply the raw material requirements of Taiwan's industry and agriculture. Even though abundant, exploitable raw material resources exist in the mainland's interior, they cannot be exported to Taiwan in large quantities and at low costs because of inadequate transportation facilities and high freight rates. As can be seen, the mainland is hampered by various restrictive factors and cannot display its potential of exporting raw materials to Taiwan. As for light industrial consumer goods, the mainland's products are encountering fierce competition with Taiwan-made products in the international market. They are mutually exclusive and can hardly import each other's products. Since Taiwan can fully utilize its export potential while the mainland cannot, the indirect trade between the two sides has brought a considerable deficit to the mainland. To solve this problem, however, we should in no way a passive approach to cut imports from Taiwan at the cost of reducing the entrepot trade between the two sides.

Second, the mainland's trade deficit is of a peculiar nature. It has resulted from the mutual influence and interaction between the policies of the two sides. Taiwan is implementing a special trade policy toward the mainland, namely "less restrictions on exports but strict controls on

imports." The mainland goods received by Taiwan are limited to those items included in a rather rigid list of permitted imports. That is, except those raw materials and semifinished products listed as permitted imports (498 items as of early 1993), all other items, including all manufactured goods, are not allowed to come in through the trade channel with the mainland. As for the Taiwan-made products going to the mainland, there is only a list of prohibited exports, and that list is very flexible. In principle, there is no restriction on exports, except strategic materials such as high-technology items and military industrial products. The inequitable import and export policies with the mainland established by the Taiwan authorities have constituted a man-made obstacle to normal trade development between the two sides. Under these policies Taiwan products can flow in endless streams to the mainland, while mainland goods cannot go freely to Taiwan, resulting in the present unbalanced situation. Nevertheless, from the standpoint of the mainland's Taiwan trade policy, an appropriate amount of trade deficit is an inevitable outcome of the effort to integrate the Taiwan market into the mainland market. The trade deficit can increase the appeal of the highly potential and rapidly growing mainland market to Taiwan businessmen and meet the practical needs of economic and trade exchanges between the two sides, thereby providing the necessary economic basis for advancing the great cause of China's peaceful reunification.

Thirdly, the mainland's trade deficit is transitional in nature. It is a temporary phenomenon in the initial stage of development of investment relations between the two sides. At the beginning when trade played a dominant role, Taiwan businessmen's investments in the mainland were merely of a trial nature, and the mainland's deficit in its entrepot trade with Taiwan was mostly attributable to the purchase of Taiwan goods through Hong Kong. Because the amount of purchase was not so large, the deficit was not too high. As of the end of 1987, the accumulated deficit was \$3.385 billion, or an average annual deficit of less than \$400 million. Since then, however, with the fast development of investment relations between the two sides, the phenomenon of investment stimulating trade has become more and more prominent, and the mainland's trade deficit has shot up continuously. A sizable portion of the deficit was due to the import of machines, equipment, raw materials, parts, accessories, and semifinished products by Taiwan businessmen when making investment in the mainland. This part accounted for 30 percent of the deficit in 1988, but jumped to 45.6 percent in 1992, while its amount grew from \$1.763 billion to \$5.1 billion. The accumulated trade deficit for these five years was \$15.227 billion, averaging \$3 billion per annum, or 7.5 times as much as the early period. However, the mainland's trade deficit caused by Taiwan-mainland joint venture entropot imports from Taiwan is only a transitional phenomenon in the initial stage of the mainland's drive to attract investment from Taiwan. Once the Taiwan-funded enterprises have entered the stable-production period, they will greatly boost their productive and export capacities and fully

display their exchange-earning potential, and the mainland's trade deficit will be remedied. Now, most Taiwan-funded enterprises are operating on a model of "receiving orders through Taiwan, production on the mainland, transshipment via Hong Kong, and sales to overseas customers." The mainland's trade deficit due to imports of raw materials, machines, and equipment by these enterprises will eventually be balanced by the foreign exchange income earned when their products are sold to the European and U.S. markets or when part of their products are sold back to Taiwan. In other words, the trade deficit with Taiwan will be made up by the overall trade surplus through the expansion of exports. This is a macro-solution to the problem of unbalanced trade between the two sides, which cannot be solved within a short time. It should be pointed out, however, that some of the above-mentioned imports were taken care of by Taiwan investors themselves without spending the mainland's foreign exchange. These included equipment imported as part of their investment, semifinished products imported to be processed and assembled on the mainland and then exported, and items brought in as giveaways. After deduction of these imports, the actual deficit suffered by the mainland in its trade with Taiwan was about 60 percent of the statistical figure released by the customs. This means an actual trade deficit of some \$10 billion, much less than the amount in the customs statistics.

### 3. Conditions for Changing From Imbalance to Balance

In terms of indirect trade relations between the two sides, the mainland is suffering a big deficit, while Taiwan enjoying a handsome surplus. In the perspective of their overall economic relations, however, the imbalance in the mainland-Taiwan trade is offset by other aspects of their economic relations, and a roughly balanced situation is maintained on the whole. Statistics show that by the end of 1992 Taiwan businessmen's accumulated investment in the mainland had totaled \$7.4 billion, and the foreign exchange brought in by those Taiwan compatriots who had come to the mainland to visit relatives and make sightseeing tours, including their spending and giveaways, had exceeded \$10 billion. This, plus other foreign exchange income, had brought the mainland's non-trade foreign exchange surplus to more than \$18 billion, approaching or even matching its trade deficit. So, by and large, an overall balance of payments in foreign exchange is maintained in the economic and trade relations between the two sides.

Nevertheless, the mainland is under an increasing pressure due to the growing deficit in the indirect trade between the two sides. Faced with this grim reality, what positive and reliable measures should the mainland take to dissipate, offset, and reduce this pressure, to increase its ability to sustain the trade deficit, and to turn the unbalanced trade between the two side into a balanced one? This is an urgent question the mainland has to solve. In my opinion, at least the following steps should be taken to eliminate the trade deficit:

First, we should encourage Taiwan businessmen to rely on "production instead of importation" when making investment. As stated above, nearly one half of the mainland's

trade deficit with Taiwan is attributable to the raw materials and semifinished products imported by Taiwan-funded enterprises on the mainland. This is mainly because the Taiwan-funded enterprises are unable to find substitutes for these materials on the mainland. To reduce the transitional trade deficit brought about by Taiwan's investment, the mainland should, on the one hand, attract big Taiwan enterprises, that is, upstream and midstream enterprises, to come to the mainland to invest in those projects that will turn out production materials needed by the Taiwan-funded midstream and downstream enterprises established earlier on the mainland. In other words, a coordinated production system incorporating manufacturing and marketing should be formed on the mainland so as to achieve the goal of "production instead of importation." On the other hand, to provide the raw materials needed by the expanding Taiwan-funded enterprises, positive efforts should be made to develop a raw material market on the mainland so as to increase the domestic upstream material supply to the Taiwan-funded enterprises and reduce the proportion of materials, parts, components, accessories, and semifinished products they have to import from Taiwan. This will enable the Taiwan-funded enterprises to use local materials to substitute for imports. As can be seen, one of the key conditions for changing the mainland's trade deficit is to develop investment relations between the two sides and form a raw material market on the mainland so that the Taiwan-funded enterprises can fill their raw material requirements locally instead of relying on imports.

Second, we should beef up our exports to Taiwan so as to "use exports to balance imports." One of the chief reasons for the mainland's trade deficit with Taiwan is that its export potential has not been fully exploited, and imports and exports are way out of line. Although the mainland's basic industry has taken initial shape and achieved a certain level of development, still it cannot satisfy to a fairly great extent Taiwan's demands for raw materials because the mainland itself is short of raw materials due to its overheated economic development. The total resources on the mainland are abundant, but the amount per capita is not so much. Moreover, the uneven distribution of resources between inland and coastal areas hampers their effective exploitation. And even though exportable resources abound in some inland areas, their supply cannot be guaranteed due to inadequate transportation facilities. To change the trade imbalance and to fully and effectively exploit the mainland's trade potentials, the best ways are as follows: On the one hand, we should utilize overseas capital, including Taiwan capital, to tap the mainland's latent resources, develop raw-material and other basic industries, and promote infrastructural construction so as to raise our industrial productive capacity and economic efficiency. On this basis, we should energetically increase our exports to Taiwan and quickly put into the Taiwan market our raw materials for agricultural and industrial production, such as petroleum, coal, and minerals, as well as other competitive products we can offer. We should also use this as a way to lead the export of our other commodities whose quality has been gradually

improved. In short, we should make Taiwan increasingly dependent on us for supply of raw materials. On the other hand, we should encourage the Taiwan-funded enterprises on the mainland to sell their products and semifinished products back to Taiwan so as to reduce our trade deficit. This will bring a change to the unbalanced trade condition.

Third, we should gear up economic and trade exchanges and develop a reciprocal relationship between the two sides. A chief factor contributing to the mainland's trade deficit is that commodity exchange between the two sides is limited to primary products from the mainland and manufactured goods and semifinished products from Taiwan. Such a trade pattern stems from the Taiwan authorities' restrictive trade policy toward the mainland. Presently, they only allow some raw materials and semifinished products for agricultural and industrial production to be imported indirectly from the mainland and prohibit the import of manufactured goods. This has greatly increased exploitation of the mainland's export potential. To break through Taiwan's restriction on imports from the mainland, the only way is to go all out to promote economic and trade exchanges between the two sides toward the development of a normal trade relationship.

In sum, to change the unbalanced indirect trade between the two sides into a balanced one, it is necessary not only to develop investment relations toward the goal of "production instead of importation," but also to expand the mainland's exports to Taiwan in a bid to "use exports to balance imports." More important is to gear up contacts and cooperation and formulate reciprocal policies so that economic and trade exchanges between the two sides will achieve self-sustaining development in a desirable direction.

#### Trade With Gulf Countries Not Up to Potential

93CE0701A Beijing GUOJI SHANGBAO in Chinese  
24 Jun 93 p 1

[Article by Li Ben (2621 2609): "China's Exports to Gulf Countries Grow Fast—Further Efforts Are Needed To Explore Markets"]

[Text] After years of stagnation, China's trade with the Gulf countries has now entered a period of normal development. In 1989 the trade volume for the first time exceeded \$1 billion. Then, it rose to a new height in 1991, surpassing \$1.5 billion. The year 1992 witnessed another big rise, sending the total trade volume close to \$1.8 billion. If there had been no Gulf war and our trade with Kuwait had been maintained at the pre-war level, the total trade volume with the six countries would have approximated \$2 billion in 1992.

Main reasons for the relatively fast growth of China's trade with the gulf countries are as follows:

—Due to the implementation of the reform and open policy, China has made big headway in developing its national economy with more products available for export. We can supply all the high- and medium-grade commodities required by the gulf countries, and both



the quality and prices of our products are competitive. This accounts for the relatively fast development in recent years of our exports to the Gulf countries (Kuwait, Saudi Arabia, Bahrain, Qatar, the United Arab Emirates, and Oman). The export volume reached \$650 million in 1989 and \$840 million in 1991. In 1992, it exceeded \$1.074 billion, about 28 percent more than the preceding year.

—During the past few years, China has made relatively fast progress in developing its economy. Each year, we need to import a certain amount of oil as our energy supply and chemical fertilizers for our agricultural development. Oil and chemical fertilizers are two major products that the six Gulf countries turn out as a result of their industrial development, and they are fully capable of meeting our requirements for these two products. As for our imports from the six countries, the volume was only some \$40 million in 1981. It reached \$200 million in 1987 and approached \$400 million in 1989. In 1992, the volume was as high as \$714 million.

Over the past years, our trade with the six Gulf countries has shown no change in the varieties of commodities. Our main exports are still textiles, garments, light industrial products, foods, hardware, and native products, though in the last few years some chemical products, machines, and electrical appliances began to enter the markets of the six countries. Imports from them remain crude oil, chemical fertilizers, and certain petrochemicals.

Despite its relatively fast development, our trade with the six Gulf countries only accounts for a small fraction of their total trade volume. For example, bilateral trade in 1992 was only 1.05 percent of the total trade volume of the six Gulf countries. That year our exports to them only accounted for 1.52 percent of their imports, and our imports from them only 0.71 percent of their exports.

The markets of the six Gulf countries have a certain capacity. In 1991 their total trade volume amounted to \$171 billion, approximately 2.85 percent of the total world trade. This amount consisted of \$100.5 billion of exports and \$70.5 billion of imports. Oil is the main export product, which accounts for 85 percent of the total export volume. The other exports are chemical fertilizers, raw materials for plastics, and other products from oil processing. The six countries rely on imports for machines and equipment, food items, clothes, and daily necessities. They have good trade conditions with low tariffs and no foreign exchange control. Their business people can import foreign products without restriction as long as they have money to do so. And they have fairly good credit. In view of this, we should devote more efforts to exploring markets in the six Gulf countries.

### Strategies for Hinterland Cities To Develop Foreign Trade

93CE0515A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 124, 30 Apr 93 pp 6-10

[Article by Long Buhai (7893 2975 3189), affiliated with the Wuhan Economic Studies Institute: "Strategic Options for Development of Foreign Trade in the 1990's by Key Inland Cities"]

[Text] Cities are a country's pioneers and guiding forces for reform, opening, and foreign trade development. While China's 467 cities had in 1990 a foreign trade purchasing volume of 162.8 billion yuan and a customs export turnover of \$51.4 billion, accounting for 54.52 percent and 82.91 percent, respectively, of China's overall figures in these categories, the foreign trade of key inland cities was clearly lower than that of open coastal cities in both overall size and growth rate. In order to shrink or even eliminate this gap, the foreign trade development of key inland cities is going to need realistic strategic options.

### 1. The Challenge Posed to Key Inland Cities by the Open-Borders Structure

Since opening up to the outside world has been established as one of China's basic national policies, an open-borders structure of SEZ's, open coastal cities, open coastal zones, and open inland-border cities has gradually evolved. As these cities and zones have more relaxed and flexible policies and greater economic decision-making power, the foreign trade and externally oriented economies of their cities have grown more quickly. On the other hand, the vast inland provinces, regions, and cities have steadily fallen behind in this race, with an ever-increasing gap.

In the short six years from 1985 through 1990, the foreign trade exports of open coastal cities have grown rapidly. While these 14 cities had a foreign trade export turnover of only \$4.286 billion in 1985, this figure had reached \$10.609 billion by 1990, or 2.5 times that of 1985, with the foreign trade exports of these 14 open coastal cities also accounting for a clearly rising percentage of China's exports. Meanwhile, the three key inland cities had foreign trade exports of only \$794 million in 1990, up only 60 percent from 1985, with their export turnover also accounting for a falling percentage of China's exports, down from 1.91 percent in 1985 to 1.51 percent by 1990. So history has posed a severe challenge to our key inland cities.

In light of this challenge, key inland cities ought to act in accordance with their own objective foreign trade development conditions and realities, by soberly choosing a rational foreign trade development strategy. First, they need to clearly recognize their unique foreign trade development position as key inland cities, which will be their basis and point of departure for drawing up a foreign trade development strategy for the 1990's.

1. Key inland cities are different from open coastal cities. As to foreign trade export geographic conditions, key inland cities are located far from foreign markets, while most open coastal cities have very close ties to the Hong Kong-Macao region and certain foreign markets. As to trade form, key inland cities conduct mostly general trade, which accounted for as much as 83 percent of Wuhan's customs export trade in 1990, while "three imports, one compensation" trade accounted for less than 2 percent. But open coastal cities have diversified trade forms, with entrepot trade making up 68.5 percent of the foreign trade export turnover of the 14 open coastal cities in 1990.

2. They are different from open inland-border cities. In recent years, as Sino-Soviet (now CIS) and PRC-Vietnamese relations have improved and China's ties with Burma and Laos have become closer, the border-trade exports of China's inland border cities have grown quickly, with 1990 border-trade exports in the city of Heihe alone having reached \$15.97 million, up a sharp 1,200 percent from 1984. The trade form of the border exports of these inland border cities is mostly a balanced exchange of imports and exports (i.e., barter trade), with export mix relying heavily on farm byproducts, local specialties, and primary manufactured goods, such as small farm machinery and farm tools. But in the export commodity mix of key inland cities, while farm byproducts make up a sizeable percentage, it is mostly light textiles and machinery and electronics products, with very little trade being conducted in the form of barter.

3. They are also different from ordinary small- and medium-sized cities in inland provinces and regions. As regional political, economic, and cultural centers, key inland cities are not analogous to other small- and medium-sized inland cities in areas, such as industrial base, communications and transportation conditions, urban infrastructure, information sources, and trade talent, which are the key factors determining the foreign trade scale and quality of cities.

## II. Strategic Options for the Development of Foreign Trade by Key Inland Cities

### 1. Export Product Strategy: Diversified Mix Vs Dependence on a Single Product

Many have called for key inland cities to choose the machinery and electronics industry as their dominant export industry, and to vigorously develop exports of machinery and electronics products. Their grounds are that most key inland cities are China's key industrial base, with rich industrial bases, having widespread links to the machinery and electronics industry, and making up a sizeable share of our industrial sector and, even more importantly, that machinery and electronics products have a great international market potential, are high-tech, and represent the direction of international trade development. While this view is not unreasonable, making machinery and electronics products the dominant exports for key inland cities in the 1990's is certainly open to question as follows:

A) In the current export commodity mix of key inland cities, machinery and electronics products make up a very limited percentage. For instance, Wuhan's \$1.259 billion of foreign trade exports during the Seventh Five-Year Plan were 16.04 percent farm byproducts, 55.56 percent light textiles, and 7.61 percent drugs and industrial chemicals, but only 6.43 percent machinery and electronics products. It will be hard to change such an export commodity mix in the short-run.

B) The radiation role of key inland cities means that their export commodity mix cannot depend completely on their own industrial structure. Many factors, such as historical

and geographic conditions and natural commodity flow-direction, have turned key inland cities into the collection and distribution centers for foreign trade commodities in the vast inland zone. In 1990, commodities from other parts of the country (goods sources) made up more than 45 percent of Wuhan's foreign trade export turnover. It can be predicted that in the 1990's, cities such as Wuhan and Chongqing are designated as open cities and interregional barriers are gradually broken down, the foreign trade radiation function of key inland cities will grow increasingly. So setting an export-mix strategy based simply on a city's own industrial share would be the wrong thing to do.

C) While machinery and electronics products in key inland cities have comparative trade advantages, they have no export-competition advantages. While the machinery and electronics industry admittedly makes up a sizeable share of the industrial sector in key inland cities, with the industrial output value of machinery and electronics products making up a high of 25.44 percent of Wuhan's GVIO [Gross Value of Industrial Output] in 1990, the exports of machinery and electronics products by key inland cities are neither high-tech or diverse, so that they lack the proper competitive capability on international markets.

We would recommend that the export-product choice be realistic, with the formation of a more rational and higher-tech export product mix being an orderly and step-by-step process. In a city with rather backward technology and production, designating the machinery and electronics industry as the key export industry too soon would be unrealistic, as it would bypass the foundation-laying stage that is of such great importance. On one hand, it might artificially curb the development of industries that have export advantages, while making it hard on the other to get machinery and electronics products into international markets due to problems, such as quality and technology level. So the export-product strategy of key inland cities for the 1990's should be one of diversified mix, based on mostly farm byproducts, local specialties, light textiles, drugs, and industrial chemicals, along with active development of machinery and electronics exports.

### 2. Export Market Strategy: A Diversification Trend

The export markets of key inland cities are too concentrated, with a severe case of conspicuous market prioritization. Priority markets are the Hong Kong-Macao-Taiwan region, which markets have grown steadily in the last dozen years or so, absorbing 55.65 percent of Wuhan's export commodities in 1990, higher than the national average of 36.38 percent. Wuhan's market dependence on the five countries (regions) of Hong Kong-Macao-Taiwan, Japan, the United States, Canada, and the EC is higher than 68 percent, while its market dependence on the vast developing countries that account for 80 percent of the world's territory and 70.5 percent of its population is only 5.43 percent. This shows just a peak at the imbalance in the distribution of key inland city export markets.

Along with the increasing regionalization and grouping of the world economy and the extraordinary sharpening of

international business competition, the export market system of key inland cities is also facing severe challenges.

A) As the primary key-inland-city market of Hong Kong-Macao-Taiwan is not large in size, limited in capacity, and already saturated, the rapid rise of the Southeast Asian economy and the skyrocketing development of the neighboring Zhu Jiang Delta economy will mean that the key inland cities will face increasingly sharper competition in that market. So it is predicted that we will have little chance of continuing to rely on that market to achieve a large increase in the export trade of key inland cities.

B) The sharpening trade protectionism among developed Western industrialized nations is adverse to the sustained and steady growth of key-inland-city export trade. Except for the Hong Kong-Macao-Taiwan region, the export markets of key inland cities are oriented mainly toward developed Western nations, such as Japan, the United States, and the EC. As much as 18.64 percent of Wuhan's 1990 exports went to these three countries (regions), making them a dominant export market. The steadily sharpening trade protectionism set off by the regionalization and grouping of the world economy in the 1990's is going to make it hard for China to expand its export trade.

C) Key inland cities have done little to open up markets in developing countries. While the trade markets of developing countries in comparison to markets in developed countries are slightly smaller in capacity individually, their absolute volume is certainly not small when added up. Moreover, in comparison to developing countries, the industrial technology of China's key inland cities has obvious advantages, with our exports to these countries of manufactured goods and machinery and electronic products being quite suited to their productive forces and quite competitive in this market. But as we have not paid enough attention to this market, overestimating the negative factors and not exerting enough development effort, less than 5.43 percent of Wuhan's 1990 exports went to developing countries, which was far lower than the national average of 14.5 percent. This has prevented the effective development of the existing production technology and manufacturing capability of China's key inland cities.

So while stabilizing our Hong Kong-Macao-Taiwan market, it will also be imperative for us to actively expand our exports to developed Western nations and the vast developing countries, by optimizing the existing export market system of our key inland cities, and drawing up a rational and diversified export market strategy. Meanwhile, an export strategy of diversified commodity mix will also make it practically feasible to practice a diversified export-market strategy, as there is a sharp mutual complementarity between the export commodity mix of key inland cities and all types of markets. To our primary markets, we will export mostly primary raw materials and labor-intensive products, which are mutually complementary with the high-tech industrial structure of developed industrialized nations and their export focus on capital- and technology-intensive products. To developing countries, our exports will be mainly machinery and electronics

products and manufactured goods, which are mutually complementary with their low level of domestic production technology and export focus on raw materials. And to the CIS and East European region, we will export mostly light textiles, which are mutually complementary with its lagging domestic development of the light textiles industry.

### *3. Technology-Import Strategy: Coordinated With Reform of Existing Enterprises*

In China's import trade, capital goods imports make up over 80 percent of our import volume, with technology import in forms, such as complete sets of equipment, key equipment, and license trade, also accounting for a sizeable percentage. So it could be said that our technology-import strategy will be a crucial part of our import-trade strategy. As to key inland cities, a strategic matter in urgent need of solution is whether to adopt an extensive import strategy of "the race being to the swiftest" and "trying hard to catch up," which focuses on importing complete sets of equipment and production lines to set up and run new enterprises with higher-tech production technology, or to import mostly key equipment and software technology, and combine it with the upgrading of existing enterprises, to take an intensive import route. We would recommend that key inland cities choose the intensive technology-import strategy for the 1990's, which is closely coordinated with the upgrading of our existing industrial base, in order to enhance our ability to assimilate imported technology, and raise the technology level and export earnings capacity of our superior industries.

A) The traditional industrial technology and equipment of key inland cities is severely ageing, which makes it necessary to import technology to upgrade existing enterprises. Taking Wuhan's machinery and textiles industries as examples, our 1990 machinery industry fixed assets net worth rate was only 48.3 percent, far lower than the national average of 62 percent while, in our textile industry, 46.4 percent of our special textile equipment was domestically inferior, with the fixed assets net worth rate of our six major cotton-spinning mills at only 46.7 percent. As machinery and textiles are Wuhan's two major industries, with their 1990 output value making up 37.6 percent of our GVIO, not changing such a backward technology level would be bound to severely affect our city's economic growth.

B) The rich S&T forces of key inland cities make it possible to assimilate advanced foreign technology and take the intensive import route. Assimilating advanced foreign technology and improving it creatively is necessarily premised on rich research might and effective coordination between research and production. While this prerequisite does not exist in small- and medium-sized inland cities and rural areas, and is also limited in small- and medium-sized coastal cities, the host of institutions of higher learning and research institutes and the rich S&T forces in key inland cities provide a solid foundation for assimilating advanced foreign technology.

C) From the angle of optimizing export commodity mix to increase export earnings, considering the adoption of the



intensive technology-import strategy is also a wise and rational option. While the export commodity mix of key inland cities for the 1990's should be mostly farm byproducts, local specialties, light textiles, and industrial chemicals, a long-range view shows that a higher-tech and more rational export commodity mix is an inevitable trend, meaning a steady increase in the percentage of exports of goods manufactured by high-tech industries, and a transition from mostly labor-intensive commodities to mainly capital-intensive ones. As machinery and electronics products now make up less than 10 percent of Wuhan's export commodity mix, the key way to increase our machinery and electronics exports will be to raise the overall technology level of our machinery and electronics industry, so that our machinery and electronics products are higher in grade and quality, enhanced in variety of design, size, and color, and stronger in export-competition capability, with an undoubted shortcut being to import advanced foreign applied technology to upgrade the technology of existing enterprises.

### III. Key Countermeasures for Achieving the Foreign Trade Development Strategy Aims at Key Inland Cities

#### 1. We Should Strengthen Lateral Alliances To Establish a More Rational Export Commodity Production System.

A) We should rely on economic coordination zones, strengthen the lateral economic alliances of key inland cities with small- and medium-sized cities and rural areas in the vast inland zone and, based on the resources and production conditions of all inland areas, rationally deploy a dominant export-production system, in order to form general socialized production with distinct regional characteristics.

B) We should "make hot-selling products our focus" based on close industrial links and good export-earnings results, intensify links among technology, industry, and trade, vigorously organize enterprise groups and, based on the principles of "optimized composition, overall planning, playing advantages up and disadvantages down, and coordinated development," form an open, comprehensive, multilevel, multifunctional, concentrated, and interlocking export-production network.

C) We should make key inland cities our key enterprise reliance, county (municipal) enterprises our reserve strength, and rural bases our key foundation, to establish a chain-type export product mix and a stepped (ten-ved) export commodity mix with the region as the unit. Based on the comparative-advantage principle, our export commodity production system should use international market prices to set input-output efficiency, induce export production enterprises to reduce their internal consumption, and emphasize operating quality and economic efficiency.

#### 2. We Should Avail Ourselves of All Overseas Opportunities, Hit Out in All Directions, and Strive To Acquire Diversified Export Markets.

In light of their geographic disadvantage, we would recommend that key inland cities "avail themselves of all overseas opportunities and hit out in all directions," in an effort to acquire diversified export markets.

A) Key cities in border provinces and regions, such as Xian and Lanzhou, could adopt a "Western-advance" strategy, by taking advantage of the Eurasian land bridge to focus on expanding business and trade with the CIS and all East European countries. When necessary, we can establish foreign trade offices in Urumqi, for joint development with Xinjiang of trade with the CIS, and for export of inland products through the port of Urumqi.

B) The key inland cities along the Chang Jiang in the Central Plains hinterland, such as Chongqing and Wuhan, can take advantage of the Chang Jiang golden waterway to on one hand, develop Chang Jiang-coastal joint transport and, on the other to "borrow boats to set forth to sea" for entrepot trade through Shanghai. Wuhan could also continue to take advantage of the Beijing-Guangzhou artery to export through Guangzhou.

C) We should actively initiate international cultural exchanges and all sorts of tourist enterprises, and exploit all means to expand our foreign trade exports. China's inland provinces and regions have rich tourist resources and glorious cultural treasures, such as the beautiful Three Gorges scenic zone, the three famous lofty towers along the Chang Jiang (the Yueyang Tower, the Yellow Crane Tower, and the King Teng Pavilion), the Qinshihuang buried figures of warriors and horses, and the Dunhuang Cave frescoes, too numerous to mention in detail. The key inland cities can take full advantage of their radiation force, by organizing various sorts of specialized tourist tours and literary and arts festivals, using the method of building business and trade bridges by putting on cultural plays, and actively promoting their rich local distinctive products to increase export earnings.

#### We Should Enhance Our Technology-Import Organization, Management, and Coordination, and Do a Conscientious Job of Assimilating Imported Technology.

As technology import is a means but not an end, it will be only through assimilating imported technology to make it ours and expanding it to other industrial sectors that will enable it to play the roles of raising our overall industrial technical level and the international competitiveness of our products, and of promoting foreign trade exports and economic development. On this basis, we must accomplish the following: 1) We must improve our research system, by promoting closer cooperation of institutions of higher learning and research institutes with production enterprises. Our first task is to resolve the problem of research being divorced from production, so that technology import, upgrading, and development is organically combined into a whole, in order to speed up the conversion of new technology into productive forces. The (Wuhan) municipal government should consider setting up a "cooperative research center," to coordinate the S&T forces and costs of government, enterprise, and research units, in

order to promote coordination between research and production. 2) We must raise the coordination capability of our national basic industries, in order to speed up the nationalization of imported technology. In particular, we must consider the degree of coordination between technology imports and our "three basic" industries, i.e., basic materials, basic technologies, and basic components. 3) We must resolve the motivation problem of production enterprises in assimilating imported technology, by putting an end to shortsighted actions of impatience for quick profits. Meanwhile, in helping enterprises to resolve funding shortages, banks should set up special funds and provide preferential and supportive policies for enterprises to assimilate advanced foreign technology.

## POPULATION

### National Family Planning Legislation Urged

93CE0661A Beijing ZHENGFA LUNTAN [POLITICS AND LAW TRIBUNE] in Chinese No 50, Apr 93 pp 89-93

[Article by Yang Quanming and Yuan Jiliang: "Thoughts on Family Planning Legislation"]

[Excerpts] [passage omitted] For a long time in the past, as we lacked scientific understanding of the issue of population, we failed to adopt effective measures to control population growth, and the production of human beings was carried out in an uncontrolled, anarchical way, resulting in the huge pressures now in existence. Having achieved profound understanding of the laws of the development of the two categories of human productive activities, and having conducted scientific analysis of China's experiences and lessons relating to the population issue, the party and the state came to give great attention to the population issue. The 12th CPC Congress made the practicing of family planning a fundamental national policy. When the 1982 constitution was formulated, this fundamental national policy was—in a careful move—made part of the General Principles chapter of the constitution. The 1982 constitution stipulates: "The state shall promote family planning so that population growth may fit the plan for economic and social development." It also stipulates: "Both husband and wife shall have the duty to practice family planning." If one may say that the formation of a clear policy of practicing family planning represented a leap in the process of understanding the population issue in China, then one may say that writing family planning into the constitution represented another leap on top of the understanding achieved. All this has provided basis for our effort to establish a system of legal rules governing family planning.

This was a good beginning at that time; but the effort has stalled in the following period. As the fundamental law of the land, the constitution can only contain the general principles on family planning, and those principles must be embodied in definite, standardized, and specific rules in ordinary laws. The cognitive leap reflected in the constitution can produce practical social effects only by being embodied in ordinary laws. The problem has been that

since the promulgation of the 1982 constitution, the issue of producing uniform national legislation on family planning has so far failed to be officially put on the agenda, because of various complicated factors. As those general principles contained in the constitution have failed to be embodied in ordinary laws as should have been the case, those general principles are not backed by specific laws and regulations, and the citizens' family planning duty, provided for by the constitution, has not been defined and embodied in specific provisions of laws. It is legally unclear what rights and duties citizens definitively have in relation to family planning, how the reproductive right is defined and delimited, what liability violations of the family planning principles entail. Such a situation has doubtless had great negative impact on the effective implementation of the fundamental national policy enunciated in the constitution.

How to accomplish the state's family planning tasks in the absence of ordinary laws? Besides propaganda and education, mainly two methods have been used: first, the use by the localities of administrative means (including economic means); and, second, the formulating of local regulations. The use of the two methods has to some extent made up for the deficiencies in uniform national legislation, played a role in meeting contingent needs, and has to some extent produced the effect of controlling population; but, the use of the methods has also produced significant after-effects. First, there has been an increase in the wilfulness in the family planning work in the localities and at the grassroots. In the absence of uniform laws, in order to accomplish tasks, the localities have had to resort to all available means. For instance, in the rural areas, the methods—such as withholding approval for the use, by those having extra-plan births, of land for housing-construction purposes, having township enterprises refuse to employ those having extra-plan births, and imposing fines on those having extra-plan births—have been used. In the urban areas, the main method used for controlling extra-plan births has been to withhold residence permits. If those having extra-plan births are government employees, there would be deductions in wages. In serious cases, those involved can be dismissed from their government jobs. If those involved are CPC or Communist Youth League members, disciplinary actions would also be taken against them. As there are no uniform law-based standards, a few localities would do whatever they want and impose whatever fines they wish to impose. Such nonstandardized practices have aroused negative feelings among ordinary people. Second, there has been adverse impact on the unity and dignity of the state's legal system. The practice of having no laws made by the center and of making local regulations become the rules restricting citizens' reproductive right not only is legally unsound, but also inevitably creates great differences between the regulations of different localities. As the localities have had to formulate such local documents as their own provisional rules or internal rules, leading to a situation where there are provincial, county, or even township rules, it is inevitable that citizens of different regions would face different restrictions. At the same time, as no uniform rules are

made on the issues on which there should have been uniform legal rules, some forcible measures which could have been legal have become illegal. For, in some situations, family planning work needs to be backed by forcible measures provided for by the law. However, there is no uniform legislation, and it is difficult to use local legislation to regulate matters which should have been regulated according to laws; meanwhile, it is impossible to totally avoid using forcible measures in practice. Such a situation is not in accord with the requirements of the legal system. Third, there have been adverse effects on the relations between cadres and ordinary people, resulting even in hostile feelings. As a result, many family planning workers are in an awkward situation. In short, because of the practice of having no uniform legislation and relying only on the contingency measures now in existence, family planning work is now faced with serious difficulties and undergoing great predicaments. According to the comrades working at the grassroots, in recent years, many national laws have been made, and there are laws governing the various sectors. However, while family planning work is the "most difficult work in the world," there remains no national law on family planning. This situation undoubtedly adds to the difficulty of the work. To get family planning work out of the predicaments, both cadres and ordinary people urgently hope that there will be a uniform family planning law so as to use regulations and legal provisions to embody the party's and the state's policy on birth; and such a law can then be used to regulate and adjust the activity of reproduction of human beings. This can, on the one hand, make the constitution-stipulated fundamental national policy harmonize with citizens' rights and duties, so that citizens can clearly know their legal rights and duties and the limits to those rights and duties; and, on the other hand, get the grassroots family-planning workers out of the predicaments, so that family planning work can be carried out strictly in accordance with the law, and that cadres can conduct their work on the basis of being confident of the legitimacy of the work. [passage omitted]

An important reason why China has yet to have family planning legislation after the passing of so much time has been that for a long time we have not resolved—in terms of the understanding we have achieved—the issue as to whether it is proper or workable to impose legal restrictions on citizens' reproductive right. Some Western countries have made a great fuss over this issue and attacked the Chinese Government, arguing that the Chinese Government has "violated human rights" by practicing family planning. Some confused people inside China also worry that restricting citizens' reproductive right is incompatible with the constitution-stipulated protection for human rights. Both those vicious attacks from overseas and the well-intentioned worrying on the part of some people inside China have all along been creating difficulties for conducting thinking on family planning legislation. Does the imposition of necessary restrictions on citizens' reproductive right constitute human rights violation? This is a key issue confronting the effort to conduct thinking on family planning legislation, and urgently needs to be

clarified theoretically. Without resolving this issue of understanding, it would be totally impossible to tackle the matter of family planning legislation. [passage omitted]

Family planning legislation is in the category of difficult legislation. In terms of specific legal norms, it is not possible to avoid several key issues; instead, it is imperative to do a good job of resolving those issues:

First, determining a couple's birth quota (that is, delimiting citizens' reproductive right). To put it briefly, China's current birth policy can be called the "one, two policy," that is, advocating on a universal basis that one couple has only one child, and allowing some ordinary people in rural areas with special difficulties to have second births after pausing for several years. In addition, special treatment can be given to minority nationality members with special difficulties. How to impose specific limits, in the form of legal norms, on citizens' reproductive right is an important issue confronting the work on family planning legislation. Undoubtedly, having definite legal norms depends on having a clear and settled birth policy. But, for a long time, people have all along been debating whether there should be a birth quota of one birth or of two births. This issue has to some extent become a very difficult legislative issue. In our view, although people have not reached a consensus on this issue, it is still possible to find an appropriate answer on the basis of the current situation. In view of the requirements of the current birth policy, one approach would be to have a birth quota of one birth, while giving special permissions to citizens with special problems for having two births. Such special permissions would be given only when legal requirements are met. It would be necessary to go through legal procedures in order to get such special permissions (the citizens getting such special permissions for two births must have the special difficulties as specified in the law, and must personally apply and get the permissions, when having paused, as required, after having first births). Another approach is to have a birth quota of two births, but there will be a policy of encouraging having one birth and of not advocating or encouraging having two births; and there will be stringent restrictions on having a second birth (such as requiring a pause). Whichever approach is adopted, it is always necessary to strictly forbid having extra-plan second births and multiple births. Comparatively, the second approach seems to be easier for ordinary people to accept. Both the essence of citizens' rights and people's mentality are in line with using the two birth quota to embody citizens' reproductive right. In terms of legal theory, in any case the two people, husband and wife, should at least have the right to reproduce themselves; that is, that there should be a legal right to have two births. On this issue currently, there is an opinion that cannot be ignored, namely, the opinion that the one-birth policy is far from being able to meet the actual needs of people at large in the rural areas and is far from being acceptable to people at large in the rural areas in terms of their thinking. In practice, the one-birth policy has never been truly implemented in a thorough manner; the situation regarding having two births has not been brought under effective control; and the phenomenon of having multiple births has not been totally eliminated. In



view of all this, it would be much better to have an explicit two-birth policy, allowing two births on a universal basis and in a planned, controlled way. Such an approach will set ordinary people's minds at rest, and also be acceptable to ordinary people. At the same time, it is proper to have the state's policy tilted in favor of having one birth through providing material incentives, that is, using rewards, special treatments, and inducement to increase the one-birth rate, and using the resultant sharp contrast to induce ordinary people to choose the one-birth practice, so as to reduce the two-birth rate; and it is also necessary to resolutely eradicate the phenomenon of having three births. It is not proper to lightly accept such an opinion, but the opinion is really worth our attention and study.

Second, the issue of restrictive measures. After delimiting the reproductive right in order to ensure strict compliance, there needs to be, in addition to propaganda and rewards, restrictive measures to serve as an important means of ensuring such compliance. In addition to ordinary economic and administrative sanctions, it is also necessary to have legal rules providing for relevant forcible, restrictive measures to deal with the situation of being pregnant and preparing to give birth after having had two births, such as rules which explicitly provide for forcible termination of pregnancy, forcible induced abortion, or induced abortion. It is necessary to forcibly sterilize those couples who have failed to be sterilized or use contraceptive measures after having each had two births. Forcible and restrictive measures constitute an issue which critically affects whether family planning work can be effectively carried out. If there are no relevant legal rules, then it would be difficult to eliminate the stubborn problems in family planning work. Therefore, there should be no hesitancy on this issue. As the use of such forcible measures has a direct bearing upon citizens' personal rights, there should be strict legal restrictions on the use of such measures in terms of the conditions and procedures relating to the use of such measures: (1) It is necessary to notify those involved after the decision to use forcible measures has been made; the notifying procedure represents a necessary preparatory stage in the process of using forcible measures. The purpose of having such a stage is to provide a make-up opportunity so that those involved can stop violating the law on their own and take corrective actions; if they take make-up actions on their own, then the decision to take forcible measures can be immediately rescinded. (2) It is necessary to make the relevant technical and medical conditions safe and reliable, so as to prevent accidents. (3) There should be a stringent approval procedure; it is appropriate to authorize prefecture- and county-level specialized agencies to grant the relevant approvals.

Third, the issue of reward and punishment. If a citizen has the legal right to determine whether to have one birth or two births, then formulating legal rules embodying the policy of giving large rewards to any couple having one birth will be an effective, feasible, and necessary method. At the same time, it is necessary to clearly provide that preferential treatment and reward be given to those marrying late and giving birth late, that preferential treatment and reward be given to any only child and the parents, and that rewards be given to units and individuals who have

done outstanding work in the area of family planning. Obviously, there will be detrimental effects on the work of reducing the birth rate, if the rewards for those citizens who have voluntarily practiced family planning do not result in a sharp contrast, and if there are no severe and proper punishments on those who have failed to strictly comply with family planning regulations. In our view, there should be proper punishments on those engaging in the following conducts: births in excess of the birth quota; hiding extra-plan births; sabotaging birth control devices; performing birth control operations in violation of regulations, resulting in malpractice accidents; giving maltreatment to women who have practiced family planning or have given birth to female babies; falsely claiming to have given birth to a "twin" or "disabled child"; getting sterilized after getting pregnant; phony sterilization; the practice of family planning officials using their positions for making personal gains; insulting, threatening, and beating family planning workers when they are performing official duties. [passage omitted]

## AGRICULTURE

### Governor on Agriculture's Market Orientation

93CE0549B Beijing JINGJI RIBAO in Chinese  
2 May 93 p 2

[Article by Wu Guanzheng (0702 1351 2973), governor of Jiangxi Province: "Readjusting the Structure and Fostering Markets—Promoting the Change to a Market Economy in Agriculture"]

[Text] Agriculture is the foundation of economic development and social stability. Judging by the present realities, the villages are where the difficulties lie in our efforts to bring about a level of moderate prosperity, but also where potential and hope exists for economic development. To realize the task of economic construction outlined at the 14th CPC National Congress and to have the national economy reach a new and higher level by the end of this century in quality as well as in overall strength requires prominent attention to agriculture. It requires giving highest priority to agriculture and requires the most extensive and vigorous promotion of the rural economy.

Development of agriculture and of the rural areas requires, as pointed out by Comrade Deng Xiaoping in his important talks in connection with his southern tour of inspection, and for which the spirit of the 14th CPC National Congress gives guidance, that we more effectively emancipate our minds, accelerate the reform, and establish a system of socialist market economy. Successful development of a market economy now requires that we must, above all, do a thorough job of restructuring the rural economy and of developing markets.

Starting in 1988, Jiangxi Province has aimed at building the great edifice of its economy on the foundation of modern agriculture, has fought an overall battle for development of its agriculture, and has promoted industrialization of agriculture. With the purpose of increasing peasant income, and taking the market as a directional guide, our

basic line of thought has been to accelerate the structural readjustment of the rural economy and a shifting of manpower in the rural areas.

The entire province has been continuously laboring along this line of thought for five years and has achieved conspicuous successes. Comparing 1988 to 1992, the value of total social product in the rural areas of the province has quadrupled. Main crops of industrial raw materials used to be produced for a long time only in a quantity sufficient for more or less half of the industrial production capacity, but they now enable self-sufficiency or even surplus production. The share of forestry, animal husbandry, sideline, and fishery production has risen to a 49.1 percent share in the value of total agricultural production. The share of the value of non-agricultural output in the total rural social output has for the first time exceeded the value of agricultural output; it has reached 50.2 percent. Average per capita net income of peasants has increased 212 yuan. Practice has told us that developing agriculture by merely attending to grain production and attending to agriculture by merely attending to agricultural cultivation will not help increase agricultural production, and it will also not stabilize grain production. Only by developing diversified economic undertakings and non-agricultural industries will there be a foundation for good harvests, and only then will the rural economy truly be able to reach a new and higher level. In view of the realities of Jiangxi Province, the following should now be carried out:

First, the peasantry must be actively induced to adjust its product mix according to market demand and to promote improvements in the rural industrial structure. In grain production, production of high quality strains should be energetically developed, firmly adhering to the principle of raising per unit area yield to increase total production volume, greatly expanding the cultivation of cash crops that have a market and are profitable, energetically developing livestock, poultry, and aquatic products industries, and promoting grain changes and increases in the intake of the peasants.

Second, nonagricultural industries must be energetically developed, tying the development of rural enterprises to development of the new type of small cities and raising the overall economic strength. In 1992 the total output value of rural industries in Jiangxi Province had risen 51.8 percent, accounting for 31.6 percent of the total industrial output value throughout the province. The newly-increased output value of rural industries accounted for 54 percent of the total newly-increased industrial output value. The net income from the exportation of rural labor services amounted to over 1 billion yuan, from which the peasants gained on a per capita average an additional 25 yuan in income. Efforts will be made this year to even exceed the level of last year.

Third, macroeconomic regulation and control must be strengthened and the establishment of a socialized service system of various levels and forms must be perfected; business operations must be further decontrolled, price relations and fair competition must be straightened out, and a market price mechanism under macroeconomic

regulation and control must be gradually formed; and a system of price protection for and reserves of agricultural products must be explored and established, and it must be attuned to the conditions of decontrolled purchasing and sales of agricultural products. We fully support the eight-point economic policy for the promotion of the reforms concerning purchase and sale of grain and for production development, as recently determined by the State Council, and will implement the policy item by item. We shall energetically develop a rural market system, enliven circulation, develop futures trading, perfect rural socialized services with regard to capital funds, information, processing, and marketing, and reduce indiscriminate production and marketing by peasants. We shall establish and perfect a science and technology service network for the entire rural area. This year Jiangxi Province allocated funds and established a base for the development of improved varieties of crops, and it is disseminating new varieties and new technologies throughout the province.

Fourth, effective input in agriculture through a variety of channels must be continuously increased. Departments of all ranks must maintain increases in input into agriculture, and, even more importantly, peasants must be induced to increase their financial input and labor accumulation, perfecting the rural infrastructure. Serious attention must be paid to the employment of foreign capital to develop agriculture; we must attract foreign firms to invest and operate agricultural undertakings and the processing of agricultural products. The way loans from the World Bank have been used by Jiangxi Province for the exploitation of its lateritic soil deposits has already proven effective and has been praised by the World Bank. We shall energetically support and encourage foreign trade enterprises, business firms, and industrial and mining enterprises in their investments in the rural areas to establish raw material bases and bases for nonstaple foodstuffs.

Fifth, effective measures must be adopted to protect the production enthusiasm of the peasants. We shall lighten the burdens of the peasants and protect the interests of the peasants; we shall also consider these efforts an important matter in the interests of consolidating the worker-peasant alliance. We shall resolutely put a stop to the "three irregularities" (setting up checkpoints, collecting unauthorized fees, and imposing unauthorized fines), and ensure that the burdens of the peasants are controlled to within the limits prescribed by the state. We shall show solicitude for the hardship of the peasants and earnestly resolve all actual difficulties experienced by the peasants in production and in their livelihood. We shall do a good job in the overall administration of public order in the rural areas, put a stop to all kinds of fraud and robbery, abolish the checkpoints, and ensure orderly legitimate production and circulation. We shall strengthen protection of the arable land resource and prohibit indiscriminate use of arable land so that arable land will forever be available for cultivation.

**Heilongjiang Issues Circular To Ease Burdens**  
93CE0549C Beijing NONGMIN RIBAO in Chinese  
16 Apr 93 p 1

[Article by NONGMIN RIBAO reporter Li Fulai (2621 4395 0171): "Heilongjiang Province Issues Strict Decree To Lessen Peasant Burdens"]

[Text] On 8 April Heilongjiang issued a "Notification by the People's Government of Heilongjiang Province Concerning Lessening the Burdens of the Peasants." The notification has been made to all villages, towns, and townships and all the people. It has strictly ordered sincere implementation of the provisions of the State Council's "Regulations on the Administration of Expenditures and Labor Services to be Borne by the Peasants," and of the "Regulations of Heilongjiang Province Concerning the Administration of Encumbrances To Be Borne by the Peasants," as well as the provisions of the "Urgent Circular Notice on the Conscientious Lessening of Burdens on the Peasants" issued under the "double authority" of the Central Committee and the State Council. These regulations firmly control the burdens of the peasants to within 5 percent of the average per capita net income of the peasants in the preceding year and have been wholeheartedly supported by the broad masses of the peasantry.

To facilitate resistance on the part of the peasants against unauthorized impositions and excessive assessments, the notification reaffirms that the portion withheld by the village be 3 percent of the local average per capita net income of the preceding year (this should comprise 1 percent for the accumulation fund, 0.5 percent for the public welfare fund, and 1.5 percent for administration expenses). Each village may not have more than three persons entitled to quota subsidy remuneration. Remuneration for lost work time due to official duties must not be more than two-thirds of the quota subsidy remuneration. Deductions for overall village expenses shall be 2 percent of a person's net income in the preceding year. A person's compulsory labor service for the village shall be 5 to 10 standard work days per year. Any mechanical or animal-drawn transport vehicle must not be required for more than 2 days per year. Labor service accumulation must not be required from each unit of the labor force of the village for more than 20 standard days per year.

The provincial government has stressed that it is forbidden to extend indiscriminately any of the items beyond what is permitted by the above-stated regulations.

The provincial government has strictly decreed that from the date of publication of the "notification" and apart from the payment of legitimate taxes, all impositions of expenditures and assessments on the peasants, any fund accumulations, special target-oriented activities, and collections of an administrative nature, as well as various funds established at the villages, regardless of formulation by government rank or department, shall cease to be carried out and later on sorted out. If it is found, after sorting out, that some of these measures should indeed

require continuation, they shall be put into effect after being reviewed according to the competency prescribed in the "regulations."

To supervise implementation of the regulations for the lessening of burdens on the peasants, the provincial government has pointed out that the peasants have the right to resist continued increases of burdens in violation of the "notification." Any person who knows of such violations has the right to report such. The provincial government has established a special telephone line for such reports. Any retaliation against denunciators will be severely punished. All discipline inspection and procuratorial departments shall consider it their important official duty to ensure implementation of the "notification."

**Analysis of Recent Lumber Market**

93CE0664B Beijing ZHONGGUO LINYE  
[FORESTRY IN CHINA] in Chinese No 5, 17 May 93  
pp 37, 38

[Article by Fu Liwen (0265 7787 2429): "Analysis of China's Recent Lumber Market"]

**[Text] 1. Lumber Market Forecast**

Production and sales of lumber in the years 1990 to 1992 were directly affected by changes in the pace of national economic development. Using the calculation method of "Annual total volume of lumber sales equals: last year's storage plus this year's output, this year's storage." Let us make some forecasts for the lumber market.

The year 1990 was a time of harnessing and consolidating the Chinese economy. The nation reduced the scale of its capital construction, and the market was weakened. The output of lumber in that year was 51.09 million cubic meters, the lumber sales volume was 53.29 million cubic meters, and the volume of stored lumber increased to 23.20 million cubic meters.

With the acceleration of China's economic construction in 1991, the lumber market gradually recovered. That year's lumber output was 51.09 million cubic meters, and the year's sales volume was 56.39 million cubic meters, an increase of 3.10 million cubic meters over 1990, a 6 percent improvement. There were 19.42 million cubic meters in storage at the end of the year, a reduction of 3.78 million cubic meters from the previous year.

The lumber production and sales situation for January to August 1992 was a total national production of 22.90 million cubic meters, with sales of 32.83 million cubic meters, while lumber in storage was 16.49 million cubic meters, a reduction of 15.1 percent compared with the same period in the year before. Forecasts from relevant departments indicate that China's economy will have about a 10 percent growth rate this year, and with this accelerated domestic economic development, market needs for lumber will continue to increase, so that lumber product enterprises will fulfill their production and sales plans ahead of time. The lumber producing plan for 1993 calls for 56.32 million cubic meters, with a calculated sales volume of 62.53 million cubic meters; this is an increase of



6.14 million cubic meters over the same period in 1992, and an 11 percent improvement. Storage by the end of the year will be reduced to 13.21 million cubic meters, a reduction of 6.21 million cubic meters from the same period last year, or 32 percent.

Based on our growing domestic economic development and increasing lumber sales for 1990, 1991, and 1992, we forecast that the volume of lumber sales in 1993 will increase by 8 percent over 1992 (we arrive at an 8 percent composite index number by taking 1991's 6 percent increase over 1990, and 1992's 11 percent increase over 1991) with a 67.54 million cubic meter lumber requirement in 1993. Now, let's analyze two situations which relate to the volume of the lumber supply:

The first situation: if stored lumber at the end of 1993 is still at 13.21 million cubic meters, where it was at the end of 1992, and lumber output in 1993 is 56 million cubic meters, we can supply 56 million cubic meters' in sales volume for the year. It is forecast that the market requirement will be 67.53 million cubic meters, which is 11.53 million cubic meters more than the year's supply capacity.

The second situation is: based on reasonable storage, lumber storage in 1993 will be 5.2 million cubic meters, which is 11 percent of the year's lumber output; if 1993's lumber output is 56 million cubic meters, we can supply a sales volume of 63.01 million cubic meters for the year. Based upon an estimated market requirement of 67.53 million cubic meters, this will be 4 million cubic meters more than the year's supply capacity.

According to China's economic development situation, the changes in that market supply and demand for lumber market and the amount of capital that lumber producing enterprises have invested, it will be impossible to keep lumber storage at the same level as at the end of 1992. So, based on the planned figure of reasonable storage being 11 percent of 1992's production, there will be a 4 million cubic meters shortfall between supply and demand. This is a more conservative forecast. Because storage at the end of 1992 was 13.21 million cubic meters, while 1993's will be 6.2 million cubic meters, nearly 7 million cubic meters less compared to the same time last year, under this situation there will still be a shortfall of 4 million cubic meters in what is needed to replenish the market supply.

## 2. The Effects Brought on by Imported Lumber

Importing lumber is an important measure to resolve China's lumber shortage. According to statistics from Customs, China imported a total of 3.61 million cubic meters in logs in 1991, chiefly from the United States and the countries of the former Soviet Union, at an import price of \$110.40 per cubic meter. Log imports in 1992 totalled 1.97 million cubic meters, at an average import price of \$112.90 per cubic meter. Because of the general recovery of the world economy, every country has a growing need for lumber, so prices will rise in the international lumber market. After the 1992 world environmental development conference, many countries took steps to reduce or prohibit exports of logs in order to protect forest resources and the ecological environment, which led to a

rise in the price of logs. It has been difficult for China's central foreign exchange to fulfill its American pine import plan due to reduced lumber exports by the United States. Canada has virtually ceased exporting logs, and Vietnam has banned such exports. Due to political and economic causes, lumber which we had been importing from the former Soviet Union has not been delivered on time, so we have had to reduce our volume of imports from there. The (approximately 10 percent) increase in log prices caused by the 1992 increase in customs duties on South Pacific lumber has also affected our lumber imports. Generally, the international lumber market situation is very unfavorable for Chinese imports of lumber. In order to remedy its lumber supply shortages, China imported 2.7 million cubic meters of lumber from January to August 1992, and estimates are that this will reach a total of 3.5 million cubic meters for the year. China exports 500,000 cubic meters of lumber annually, so that the volume of imported and exported lumber is almost balanced. Forecasting on this basis, if imports and exports of logs maintain their end of 1992 levels, domestic market requirements of lumber will still see a 4 million cubic meter shortfall.

Based on the national economy's 1993 rate of development, there is a definite trend to increased lumber imports. If 1993 imports of lumber reach 7 million cubic meters, a large scale increase over 1992, there will be a partial relaxation of the contradictions in the domestic market.

## 3. Suggestions

According to the foregoing analysis, there will be a shortage of about 4 million cubic meters in the 1993 lumber market. In order to make the market supply of lumber fit our economic development, we make the following suggestions:

1) Adjust lumber prices. There were many reasons for the big lumber shortage of 1993, but the low price of lumber was a major one. Right now, the rapid development of our national economy has created a huge demand for lumber, but low prices discourage lumber producing enterprises from increasing production and cut costs, and does nothing to encourage lumber-consuming industries to actively seek substitute products which will cut their costs. If the paper products industry would use wood scraps as raw materials, it could save nearly one million cubic meters of high quality lumber every year.

We suggest that price adjustment will bring quality lumber at a favorable price, and that increasing the price of jointly distributed lumber will encourage both producers and consumers to pay closer attention to lumber and seek substitute materials, for example, to develop metal materials, plastic and cement, etc. Therefore, adjusting lumber prices will be a major step towards easing the shortages in the 1993 lumber market.

2) We recommend that forestry departments at all levels do a better job of distributing cutting licences in advance, and restore the former pre-cutting system in order to assure that lumber production will suit the needs of the lumber market.

3) Increase the volume of imported lumber to supplement the needs of the domestic lumber market.

4) Exercise greater control over the lumber market, with strict application of relevant regulations, especially when market needs exceed the supply. This will prevent unreasonable and purposeless cutting. There must be stronger supervision and inspection of the lumber market.

#### Roundup on Rural Analysis Symposium

93CE0572B Beijing ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] in Chinese No 4, 20 Apr 93 pp 49-51

[Article by Li Jing (2621 7234) of the Editorial Department of ZHONGGUO NONGCUN JINGJI: "Roundup of Symposium on Analysis of Agricultural Situation and Ways To Deal With It"]

[Text] The Market Economy Research Institute of the Software Sciences Committee in the Ministry of Agriculture and the Editorial Department of ZHONGGUO NONGCUN JINGJI not long ago jointly held in Beijing a symposium at which scholars made a conscientious analysis of the current situation in agriculture and put forward corresponding measures to deal with it.

#### A. How To Regard the Current Agricultural Situation

Scholars at the symposium maintained that whether the judgments on the agricultural situation are correct directly affects whether the policy decisions on agriculture are scientific. However, under China's current circumstances, it is very difficult to make a correct judgment of the agricultural situation, because China lacks a perfected economic monitoring system and early-warning system. Information collection and feedback is fairly difficult and often lacks fidelity. Therefore, people's judgment of the agricultural situation often starts from real emotions. The scholars at the symposium held that, with regard to the analysis of the current agricultural situation, it must be free from the former idea of the theory that only grain counts, i.e., thinking that the agricultural question is the grain question: if there is a bumper grain harvest then the agricultural situation is good; and if there is a drop in the output of grain, then the agricultural situation is bad, always having a sense of crisis about grain or a case of melancholia about grain. From a look at the ideas of the market economy, we see that the full plowing and other phenomena that have now appeared in the rural areas are normal phenomena that appear in agriculture's transition from a planned economy to a market economy.

The scholars at the symposium concluded that the following are the main problems existing in China's agriculture at present:

1. Last year the rising fever for opening up areas took up a lot of farmland; the area under cultivation rapidly decreased and the peasants' interests were also impaired.
2. The conditions for trade in agricultural products have worsened. According to statistics, in 1992 the price index for agricultural products rose 3.4 percent, while the price

index for the means of production used in agriculture rose 7.3 percent, and the price index for consumer goods in peasant life rose 4.7 percent.

3. There has been a relative decline in the peasants' income. In 1992 the per capita income of peasants in China was 780 yuan, an increase of 5.8 percent over that of 1991. However, the growth of the peasants' income is lower than the growth of the rural society's total output value and the growth of the township-town industry's total output value. Last year the rate of growth in the rural society's total output value was 18 percent, and the rate of growth in the township-town industry's total output value was 39 percent; but the rate of growth in the peasants' income was lower than that of urban residents.

4. The peasants' burden is heavy, and many of them cannot make ends meet.

5. The agricultural product mix cannot meet the demands of economic development, and a large amount of inferior products are overstocked but are still being purchased without letup.

6. Agricultural input has decreased. This is manifested in: On the one hand, the growth of agricultural input and the development of agriculture are not in synchronization, e.g., in 1992, in the total investment in ownership by the whole people, investment in agriculture was only about 2.8 percent. On the other hand, there is quite a lot of recessive runoff in agricultural input, and the phenomenon of layer upon layer of withholding goods that ought to be delivered is extremely widespread.

7. A tendency to neglect agriculture has appeared. First, it is thought that agriculture has already reached a standard; second, it is thought that markets are omnipotent and that, provided the market economy is put into practice, the markets can solve all of agriculture's problems.

8. The discrepancies between agriculture's developing areas are rapidly expanding.

The two most direct consequences of the above problems are a reduction of the area sown to grain and the appearance of labor unrest among the people. According to calculations, the area sown to grain in the autumn and winter of last year and in this year was 321.54 million mu less, or a reduction of 1.3 percent, than that of last year. Cotton was 4,174 mu [figure as published] less, a reduction of 4 percent. Rapeseed was 31.99 million mu less, a reduction of 6.8 percent. As for the reappearance this year of labor unrest among the people, it is obvious to all.

#### B. What Is the Source of Agriculture's Problems?

Scholars at the symposium concluded that there was an old cause, i.e., industrial-agricultural relations are uncoordinated. These uncoordinated relations have been newly manifested under the conditions of developing a market economy. Specifically, there are the following causes:

- 1) The rate of China's industrial development is too fast, thereby causing an insufficiency in agricultural investment. Last year, after China's industry was readjusted, economic growth mainly depended on an infusion of

capital and depended on attracting investment. Last year the rate of growth in investment in China's industry was about 30 percent, of which that of industry under ownership of the whole people was 27 percent, that of urban collective industry was 50 percent, and that of township-town industry was 79 percent. The fast growth of industrial investment not only took up a large amount of capital but also took up a large amount of natural resources, thereby causing an insufficiency in agricultural investment. At the same time there occurred a very great change in the way that China's industry grows: formerly, light industry grew faster than heavy industry, but last year the converse was true. Last year the rates of growth of light industry and heavy industry were respectively 9.1 and 16.8 percent in January, 16.8 and 22.2 percent in June, and 31 and 33.3 percent in December. This shows that the growth of China's capital-intensive industry is faster than the growth of its labor-intensive industry, and China's industry has taken the path of capital excluding labor.

2) The township-town enterprises have also taken the capital-intensive path. For example, according to projected calculations of employment in township-town enterprises, last year these enterprises should have absorbed 13 million labor units, but in reality they only absorbed 6 million. The township-town enterprises took the labor-intensive path too early: on the one hand their funds flowed into nonagricultural industries, and on the other hand the agricultural labor could not flow out and the peasants' income grew slowly.

3) Because the grain market was set free under the circumstances of obtaining bumper harvests and of supply exceeding demand, the price of grain was bound to fall. In October of last year, the grain price fell to its lowest point since 1987. At the same time, China's industry also carried out market reform. Because the prices of raw materials and energy rose by a big amount, the prices of industrial products also rose very quickly, causing a worsening of the conditions for trade in agricultural products. The peasants increased their output but not their income, and in some cases even could not make ends meet.

4) In the market reform, various local governments, in order to develop the local economy, began to blindly develop and to set up development zones everywhere. The development zones, on the one hand, took up a large amount of cultivated land; on the other hand, the peasants were asked to come up with the greater part of the funds needed, thereby making their burden heavier. Moreover, the process of China's market reform, in essence, is also a process of readjusting interests. In the process of readjusting interests, all sides want to make use of the scheme of market reform to obtain their own interests. Because the peasants do not have any way to protect themselves, arbitrary collection of fees and arbitrary apportionments, despite repeated prohibitions, do not stop.

5) For a long time the agricultural problem paramount in people's minds has been the grain problem. After bumper harvests for several years in succession, people think that the grain problem has already been solved. Thus a tendency has been produced to neglect agriculture, neglect the

peasants, reduce agricultural investment, and, in particular, neglect the further development of agriculture at some deeper levels, e.g., the problem of the peasants' income and the transfer of labor.

### C. How To Solve the Problems Existing in Agriculture

Scholars at the symposium maintained that, no matter what measures are taken, they must conform to the direction of development of the market economy and not run counter to the great principle of the market economy. First of all, there is the price control policy for the means of production in agriculture. Its purpose is to protect peasants so that they do not suffer from the rise in prices of the means of production, but the actual circumstances were that, during the market reform, the industrial enterprise moved toward the market. As a commodity producer, under the circumstances in which the supply of its products did not meet the demand for them, it did not actually practice price control marketing: apparently prices did not rise, but secretly they did. If the state were to enforce price controls, it would have to bear the losses incurred by the enterprises caused by the price controls, thereby adding to the state's financial burden. The policy of buying agricultural products at protected prices is also like this. Under circumstances in which grain supply and demand were in balance, to open wide buying at protected prices would only add to the financial burden of the state and its purchasing departments. At the same time it would send the wrong signal to the peasants, causing a sharpening of the contradiction in which the supply of grain exceeds the demand. Moreover, when formulating these policies, the government did not stipulate which departments would represent the state in supervising their implementation, which could lead to a situation in which the departments would shift responsibility onto each other and no one would implement the policies. Almost all the Western countries have adopted a protectionist policy for agriculture, but their protection is, for the most part, done for political reasons. Now, many Western economists think that the harm done by an agricultural protectionist policy is not less than that done by an agricultural tax policy; no matter whether viewed from the long or short term, it has a negative effect.

Scholars at the symposium maintained that, even if the protectionist policy worked, China has an agricultural population of 900 million, and they cannot be protected; it is just a case of "trying to put out a burning cartload of faggots with a cup of water"—an utterly inadequate measure. What is now most important is how not to harm the peasants' interests, i.e., how to change the peasants' unequal position in the exchange of industrial and agricultural products and their being forced to accept nonvoluntary transactions and replace it with voluntary transactions between equals. Only the government can solve this problem, and only the government should solve it. This involves a change in the government's functions, and the principle of change is a rule of the market economy that it should obey, no matter whether it takes part in the market or intervenes in the market. The scholars at the symposium thought that the following things must be done now:



1) Solve the problem of nonagricultural occupation of the land. Although China's laws stipulate that the land in rural areas is collectively owned by the villagers, at present agricultural land is often illegally seized and requisitioned, thereby wasting the land resource and harming the peasants' interests. Therefore, the state should first of all formulate an overall land program and a set of effective measures for controlling the requisitioning of land, so that for the nonagricultural occupation of land there are regulations that can be followed and laws that can be a basis. Next, the state should make rules that enable the peasants to share in the earnings from land use, and the best measure would be to let the peasants become shareholders with land-use rights. Finally, from the long-range view, China should set up a perfected land system that makes clear property rights, so that the land-use rights become long term or permanent, and that makes clear the property's main body and also protects the legitimate rights and interests of this main body.

2) On the question of the land tax and other levies on the peasants, the state should formulate a set of measures for collecting and controlling rents and taxes that make clear the distinction between rents, taxes, and fees, and that clearly stipulate the kinds of rents and taxes, the measures for collecting them, and the principal parts for levying them, thereby stopping the existing phenomena in the rural areas of arbitrary apportionments, arbitrary collection of fees, and arbitrary raising of money and lightening the peasants' burden.

3) Reform the financial and banking system for the rural areas. At present the financial and banking plans for the rural areas simply cannot be achieved, and financial allocations are frequently intercepted and diverted. The Agricultural Bank is unwilling to put funds into an agriculture that reaps few profits. Therefore, the state should, in line with

the characteristics of agriculture, put into effect a double-track system of institutional banking and commercial banking. With institutional banking replacing part of the present rural financial administration, i.e., carrying out the state's investment plan for agriculture, and with the commercial banking restructuring the Agricultural Bank, the Agricultural Bank will truly become a banking enterprise.

4) Formulate a rural property structure policy. With preferential policies supporting the development of township-town enterprises, particularly the labor-intensive township-town enterprises, the state should accelerate the transfer of labor and raise the labor productivity rate and the peasants' income.

What is the way out for China's agriculture? The representatives at the symposium unanimously concluded that it lies in developing small cities and in developing nonagricultural industries. In brief, at present and in the future, it will not do to consider agriculture solely from the angle of eating food; we should consider it from the angle of the overall situation of the whole national economy. The current problem in agriculture is not the grain problem but rather the problem of the peasants' income. If the peasants' income is not raised, it will be impossible to start up the rural markets; and if the rural markets are not started up the national economy cannot develop on a big scale. But the problem of the peasants' income is not a problem that can be solved based on how many kinds and how much grain there is. From the long-range view, the solution of the problem of the peasants' income can only depend on the development of nonagricultural industries and the development of small cities and towns, so that the majority of peasants are transferred from the land, and so that the proportion of the rural population to the urban population changes from 9:2 to 2:9. This is the final way out for China's agriculture.

## NORTHWEST REGION

### Regional CPC Urges Unity Among Xinjiang Nationalities

#### Propaganda Dept Issues Circular

93CM0357B Urumqi XINJIANG RIBAO in Chinese  
26 Apr 93 pp 1, 3

[Article: "The Xinjiang Uygur AR Party Committee Propaganda Department Issues a Circular on Doing a Conscientious Job of the 11th Nationalities-Unity Indoctrination-Month Campaign"]

[Text] On 23 April 1993, the Xinjiang Uygur AR [Autonomous Region] Party Committee Propaganda Department issued a circular calling for a conscientious implementation of the 11th Nationalities-Unity Indoctrination-Month Campaign. The full text of the circular is given below:

May 1993 is the Xinjiang AR's 11th Nationalities-Unity Indoctrination Month. Since May 1983, under the leadership of the Xinjiang AR Party Committee and People's Government, all departments in all areas have used every May for a concentrated mobilization and organization of the peoples of all nationalities in a solid campaign of all sorts of activities advantageous to nationalities unity, which has clearly raised the awareness of the masses of all nationalities about the Marxist nationalities stand, about conscientiously implementing the party's nationalities policy, and about consolidating nationalities unity, and promoted better political stability, economic development, and social prosperity in the Xinjiang AR. As we are now facing three major opportunities to develop our economy and a fine climate for speeding up the joint prosperity of all nationalities, doing a conscientious job of the 11th Nationalities-Unity Indoctrination-Month Campaign will help us to seize the opportunity to accelerate our development and promote the joint prosperity of all nationalities. This circular presents our requirements for the 11th Nationalities-Unity Indoctrination Month, which we expect to be carried out conscientiously.

**1. We Must Closely Combine the Guidance Provided by Comrade Deng Xiaoping's Speeches on His 1992 Spring Southern-Tour and the Spirit of the 14th CPC Congress With Xinjiang's Nationalities-Unity and Economic-Development Realities, Continuing To Make Learning Our Key Mission To Be Emphasized.** The overall guiding ideology for our 1993 Nationalities-Unity Indoctrination-Month Campaign is to closely combine the guidance provided by Comrade Deng Xiaoping's southern-tour speeches, the spirit of the 14th CPC Congress, and a full implementation of the spirit of the 1992 Central and Regional Nationalities-Work Conferences with our region's economic-development and nationalities-unity realities, by freeing up our thinking, acting pragmatically, seizing opportunities, and intensifying reform, in order to speed up our development and achieve joint prosperity. With this guiding ideology, party committees and governments at all levels, based on their previous study of Comrade Deng Xiaoping's 1992 southern-tour speeches, must continue to thoroughly study Comrade Jiang Zemin's

Work Report to the 14th CPC Congress, the key spirit of the Eighth NPC and CPPCC sessions, the key speeches of comrades Jiang Zemin and Li Peng at the Central Nationalities-Work Conference, and the amended Constitution of the PRC and Regional National Autonomy Law. These studies should enable the cadres and masses of all nationalities to better free up their thinking, act pragmatically, steadily replace their product-economy ideology with market-economy ideas, and replace sticking to the old ways with the concept of daring to make breakthroughs, take risks, pioneer, and compete. The key to fully and conscientiously consolidating and developing the great unity among our people of all nationalities will be speeding up economic development in minority-nationality regions, in order to promote the joint prosperity of all nationalities. This will mean closely uniting as one to seize opportunities and place genuine emphasis on acting pragmatically.

**2. We Must Make a Conscientious Examination of Our Enforcement of the Party's Nationalities Policy and Our Regional National Autonomy Law.** Party committees and governments at all levels must combine study of our new Constitution and Regional National Autonomy Law with enforcement of the Party's nationalities policy in their local regions, systems, and units, by making a full-scale, conscientious investigation of the nationalities-unity situation between localities and the military, localities and the production and construction corps, local and central units, and between units. Party and government leading groups at all levels must first adopt forms such as democratic-activity meetings, to conduct an investigation of the enforcement by leading cadres of all nationalities in recent years of nationalities policy and consolidation of nationalities unity, with efforts being focused on solving any problems that are discovered in this investigation. The "double-model" counties, cities, and groups already named by party committees and governments (military division-level) will be the priorities of this investigation. All areas can organize their forces based on respective conditions to adopt methods, such as self-investigation, mutual-investigation, and spot-checks by superiors. Those units that are found to have maintained their titles of honor and achieved new work successes will be vigorously publicized, while those that have experienced problems and whose work has deteriorated to the point where they have missed set deadlines for improvement will have their titles revoked. Our 1993 establishment-activity priority will be placed on consolidating, improving, and developing units that have already been named.

**3. We Will Launch Widespread "Double-Advanced" Citation Activities, in Order To Make Full Preparations for the Xinjiang AR's Third Nationalities-Unity Citation Congress To Be Held in the Last Half of 1993.** All systems in all areas must, based on study, investigation, and summing up, adopt the method of individual (unit) summing up and level-by-level choice through public appraisal, to cite the advanced nationalities-unity and military/civilian-unity collectives and individuals that have emerged in large numbers since the Xinjiang AR's Second Nationalities-Unity Citation Congress. This citation must emphasize the topics of economic and nationalities-unity work, making

the key criteria for advanced assessment economic growth and higher living standards for the masses of all nationalities. This citation will raise the awareness of the masses of cadres of all nationalities about reinforcing nationalities unity and promoting economic development, by fully clarifying that economic improvement is not simply an economic matter, but rather a most immediate and crucial political and nationalities issue. This will make them more consciously focus their nationalities-unity work on subordination and service to the key of economic development, so that they will do better nationalities-unity work focused on economic development, reform, and opening.

**4. We Will Use Diversified Forms To Launch a Widespread Campaign of Benefit to Nationalities Unity and Unity Among All Parties.** Our decade of experience in Nationalities-Unity Indoctrination-Month campaigning shows that fully launching diversified forms of activities that are pleasing to the masses and effective contributes to forming a fine climate for great unity among all nationalities. This means that our nationalities-unity indoctrination-month activities should have both form and substance. So in addition to launching activities, such as all sorts of forums, public lectures, speeches, experience-exchange conferences, knowledge competitions, publication-reporting contests, singing contests, literary and artistic performances, sports competitions, and art exhibits, we should also focus closely on the key of economic development, by launching ones, such as S&T support for the poor, S&T advisory services, and patrols to diagnose and deliver medical care and drugs. Such forms of activities will better reinforce nationalities unity and unity among all parties. All areas and departments should also make plans for taking feasible and effective steps to act more realistically in the interests of the masses of all nationalities.

**5. We Will Bring the Role of Radio, TV, Newspapers, and All Sorts of Publications Into Full Play, in Order To Strengthen in Force and Depth the Propaganda Campaign for Our 1993 Nationalities-Unity Indoctrination Month.** All press units must publish special topics and columns, and all enterprises and institutions must fully exploit our existing modern propaganda tools to widely publicize the reform, opening and economic development successes achieved by all areas under the "banner of great unity among all nationalities," the enormous achievements and basic experiences of nationalities work, the Xinjiang AR's fine climate of nationalities unity, the principle that economic development would be impossible without a stable social and political climate, that adherence to the leadership of the party is the only basic guarantee for achieving equality, prosperity, and strength for all nationalities, and the idea that all nationalities must enhance their unity, seize opportunities, act together as one, and prosper together.

**6. Leading Groups at All Levels Must Pay Great Attention to and Enhance Their Leadership of This Nationalities-Unity Indoctrination-Month Campaign.** The key to the effectiveness of our Nationalities-Unity Indoctrination-Month Campaign will be the attention paid to it by the leadership at all levels. Party committees and governments at all levels must put nationalities-unity work on their priority agendas for conscientious study, meticulous planning, and prompt summing up. Departments at all levels, such as propaganda, united fronts, and nationality committees, must actively and conscientiously do specific organizational work for our Nationalities-Unity Indoctrination Month, with the close cooperation of labor, youth, and women's organizations to arrange good indoctrination-month activities for all systems.



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